



Maluti-A-Phofung Local Municipality
Annual Financial Statements
for the year ended June 30, 2018

Maluti-A-Phofung Local Municipality

Annual Financial Statements for the year ended June 30, 2018

General Information

Legal form of entity	Municipality
Nature of business and principal activities	Is an organ of state within the local sphere of government exercising legislative and executive authority within an area determined in terms of the Local Government Municipal Demarcation Act, 1998.
Mayoral committee	
Executive Mayor	Cllr Tshabalala VW
Speaker	Cllr Nthedi AM
Chief whip	Cllr Moloi MP
Mayoral committee	Cllr Crockett M Cllr Gamede EN Cllr KHOARAI MI Cllr Lebesa MJ Cllr Mahlangu SJ Cllr Mavuso TM Cllr Mboso LA Cllr Mkhwanazi TI Cllr Mofokeng BD Cllr Mokoena NR Cllr Mopeli JT Cllr Mosia MM Cllr Mositi MC Cllr Nhlapo DJ Cllr Nhlapo MA Cllr Nthinya TJ Cllr Thebe TR Cllr Tsotetsi MJ
Councillors	Cllr Baas TD Cllr Beukes PB Cllr Chabangu MM Cllr Charlie KK Cllr Chatimba NT Cllr Dlamini HD Cllr Hatla TI Cllr Hlatshwayo TF Cllr Khambule MA Cllr Khatlake MR Cllr Komako AM Cllr Khoapha NA Cllr Lebesa MB Cllr Lebesana PJ Cllr Lebusa ME Cllr Letaoane TT Cllr Letooane SG Cllr Letsoaka MI Cllr Mahlambi TJ Cllr Mahlatsi A Cllr Majake IM Cllr Majara MM Cllr Makae PG Cllr Malimabe L

Maluti-A-Phofung Local Municipality

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General Information

Cllr Malinga DN
Cllr Masounyane SS
Cllr Matjele MP
Cllr Mdakane HF
Cllr Mhlambi MA
Cllr Mkhwanazi MS
Cllr Mlangeni M
Cllr Mofokeng Tsoeu MA
Cllr Mofokeng ND
Cllr Mofokeng PM
Cllr Mohlekwa TR
Cllr Mohoaladi ME
Cllr Mokoena DJ
Cllr Mokoena JM
Cllr Mokoena LB
Cllr Mokoena LE
Cllr Mokoena ML
Cllr Mokotso GT
Cllr Mokubung ML
Cllr Molaba TE
Cllr Molahlehi TJ
Cllr Molefe KE
Cllr Moloi KP
Cllr Moloi L
Cllr Moloi ML
Cllr Moloi TD
Cllr Monkoe NM
Cllr Mopeli MS
Cllr Mopeli N
Cllr Moseme LA
Cllr Mosia MA
Cllr Mosia ML
Cllr Mosikidi TJ
Cllr Mositi MC
Cllr Mota MS
Cllr Motaung KL
Cllr Motaung ME
Cllr Motaung PM
Cllr Motaung SJ
Cllr Motholo ME
Cllr Motlokoa TP
Cllr Motloung MM
Cllr Motshweneng MR
Cllr Motsima MM
Cllr Mpakathe MP
Cllr Msimanga VS
Cllr Naledi MI
Cllr Ndlovu VM
Cllr Nhlapo MA
Cllr Oates AM

Maluti-A-Phofung Local Municipality

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General Information

	Cllr Peete ME Cllr Ralethohlane MJ Cllr Ramochela A Cllr Ramohloki IN Cllr Ramooana MC Cllr Rantsane J Cllr Salamu MS Cllr Sefatsa DE Cllr Semela DG Cllr Seobi MJ Cllr Sephula PE Cllr Shabalala M Cllr Tamane MJ Cllr Thakhuli ND Cllr Thebe TR Cllr Tolofi ME Cllr Tshabalala MA Cllr Tshabalala MJ
Grading of local authority	Grade 4
Capacity of local authority	High capacity
Municipal demarcation code	FS194
Acting Accounting Officer	TF Mopeloa
Acting Chief Finance Officer (CFO)	LME Mahuma
Registered office	32 Moremoholo and Motloung Street Setsing Business Centre Phuthaditjhaba 9870
Postal address	Private Bag X805 Witsieshoek 9866
Auditors	Auditor-General of South Africa (Free State)
Attorneys	Balden and Vogel Partners Majavu Incorporated Majola Attorney's Matsepe Attorney's Moroka Attorney's Niemann Grobbelaar Ponoane Attorneys, Notories and Conveyancers Sunil Narian Incorporated Uys Mathebula Attorneys

Maluti-A-Phofung Local Municipality

Annual Financial Statements for the year ended June 30, 2018

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The reports and statements set out below comprise the annual financial statements presented to the council::

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COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
MPRA	Municipal Property Rates Act
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
COGTA	Cooperative Governance and Traditional Affairs
CPI	Consumer Price Index
SALGA	South Africa Local Government Association

Maluti-A-Phofung Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to June 30, 2019 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for auditing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 6.

I certify that salaries, allowances and benefits of councilors as disclosed in note 30 to these annual financial statements are within the upper limits of the framework envisaged in section 219 of the Constitution of the Republic of South Africa, read with the Remuneration of Public Office Bearers Act, Act 20 of 1998, and the Minister of Provincial and Local Government's determination in accordance with this Act.

The annual financial statements set out on pages 6 to 98, which have been prepared on the going concern basis, were approved by the accounting officer on 31 January 2020 and were signed on:

Accounting Officer
TF Mopoloa

Maluti-A-Phofung Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Statement of Financial Position as at June 30, 2018

Figures in Rand	Note(s)	2018	2017
Assets			
Current Assets			
Inventories	9	5,728,012	5,775,002
Receivables from exchange transactions	10&13	511,477,916	352,416,562
Receivables from non-exchange transactions	11&13	85,606,608	94,341,747
VAT receivable	12	258,791,842	165,172,569
Long term receivable		1,864,328	1,864,328
Cash and cash equivalents	14	7,351,769	37,175,244
		870,820,475	656,745,452
Non-Current Assets			
Investment property	3	51,413,117	51,413,117
Property, plant and equipment	4	3,189,695,709	3,455,931,036
Intangible assets	5	1,531,623	2,025,281
Investments in controlled entities	6	300	300
Other financial assets	7	906,586	838,796
Long term receivable		5,258,537	5,258,537
		3,248,805,872	3,515,467,067
Total Assets		4,119,626,347	4,172,212,519
Liabilities			
Current Liabilities			
Other financial liabilities	17	3,030,233	3,014,395
Payables from exchange transactions	19	3,807,324,055	2,678,892,146
Consumer deposits	20	12,259,360	12,111,280
Employee benefit obligation	8	-	2,638,000
Unspent conditional grants and receipts	16	80,270,411	7,309,703
		3,902,884,059	2,703,965,524
Non-Current Liabilities			
Other financial liabilities	17	4,542,653	6,258,831
Employee benefit obligation	8	30,221,000	27,733,000
Provisions	18	38,252,641	38,252,641
		73,016,294	72,244,472
Total Liabilities		3,975,900,353	2,776,209,996
Net Assets		143,725,994	1,396,002,523
Reserves			
Revaluation reserve	15	276,825,208	276,825,208
Accumulated surplus		(133,099,210)	1,119,177,315
Total Net Assets		143,725,998	1,396,002,523

Maluti-A-Phofung Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Statement of Financial Performance

Figures in Rand	Note(s)	2018	2017
Revenue			
Revenue from exchange transactions			
Service charges	22	436,963,657	402,955,086
Rental of facilities and equipment	23	1,019,848	1,142,043
Interest received (trading)		-	19,665,116
Recoveries		(901,779)	-
Other income	25	12,502,017	19,121,932
Interest received - investment		3,461,475	2,303,804
Fair value adjustments		67,790	62,251
Total revenue from exchange transactions		453,113,008	445,250,232
Revenue from non-exchange transactions			
Taxation revenue			
Traffic fines		53,411,659	60,417,332
Property rates	26	174,215,504	151,220,692
Property rates - penalties imposed	26	51	11,849,379
Transfer revenue			
Government grants & subsidies	28	610,988,292	635,117,297
Public contributions and donations		-	223,894
Total revenue from non-exchange transactions		838,615,506	858,828,594
Total revenue	21	1,291,728,514	1,304,078,826
Expenditure			
Employee related costs	29	(375,002,366)	(343,703,978)
Remuneration of councillors	30	(25,847,608)	(23,891,951)
Water management fees	31	(99,724,093)	(27,520,834)
Depreciation and amortisation	32	(266,728,985)	(268,359,815)
Impairment loss/Reversal of impairments	33	-	(114,948)
Finance costs	34	(1,141,212)	(24,594,423)
Debt Impairment	35	(166,804,767)	(63,212,204)
Bulk purchases	36	(610,927,228)	(594,330,372)
Contracted services	37	(51,121,805)	(94,457,442)
Transfers and Subsidies	27	(115,540,000)	(109,000,000)
General Expenses	38	(831,166,975)	(553,377,360)
Total expenditure		(2,544,005,039)	(2,102,563,327)
Deficit for the year		(1,252,276,525)	(798,484,501)

Maluti-A-Phofung Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Accumulated surplus	Total net assets
Balance at July 1, 2016	276,825,208	1,917,661,816	2,194,487,024
Changes in net assets			
Surplus for the year		- (798,484,501)	(798,484,501)
Total changes		- (798,484,501)	(798,484,501)
Balance at July 1, 2017	276,825,208	1,119,177,315	1,396,002,523
Changes in net assets			
Surplus for the year		- (1,252,276,525)	(1,252,276,525)
Total changes		- (1,252,276,525)	(1,252,276,525)
Balance at June 30, 2018	276,825,208	(133,099,210)	143,725,998
Note(s)	15		

Maluti-A-Phofung Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Cash Flow Statement

Figures in Rand	Note(s)	2018	2017
Cash flows from operating activities			
Receipts			
Sale of goods and services		294,048,229	301,687,034
Grants		683,949,000	638,748,796
Interest income		3,461,475	33,818,299
Other receipts		66,179,825	80,905,201
		1,047,638,529	1,055,159,330
Payments			
Employee costs		(400,999,974)	(366,950,469)
Suppliers		(558,080,479)	(447,465,433)
Finance costs		(1,141,212)	(24,594,423)
Grants paid		(115,540,000)	-
		(1,075,761,665)	(839,010,325)
Undefined difference compared to the cash generated from operations note		4	-
Net cash flows from operating activities	42	(28,123,132)	216,149,005
Cash flows from investing activities			
Purchase of property, plant and equipment	4	-	(186,621,743)
Proceeds from sale of property, plant and equipment	4	-	4,023,862
Purchase of other intangible assets	5	-	(1,239,982)
Proceeds from sale of financial assets		-	(124,503)
Purchase of long term receivable		-	(3,887,148)
Net cash flows from investing activities		-	(187,725,011)
Cash flows from financing activities			
Repayment of other financial liabilities		(1,700,340)	793,955
Net cash flows from financing activities		(1,700,340)	793,955
Net increase/(decrease) in cash and cash equivalents		(29,823,472)	29,217,949
Cash and cash equivalents at the beginning of the year		37,175,244	7,957,295
Cash and cash equivalents at the end of the year	14	7,351,772	37,175,244

Maluti-A-Phofung Local Municipality

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

Statement of Financial Performance

Revenue

Revenue from exchange transactions

Service charges	712,889,000	-	712,889,000	436,963,657	(275,925,343)	
Rental of facilities and equipment	1,284,000	-	1,284,000	1,019,848	(264,152)	
Interest received (trading)	31,800,000	-	31,800,000	-	(31,800,000)	
Recoveries	-	-	-	(901,779)	(901,779)	
Other income - (rollup)	28,848,000	-	28,848,000	12,502,017	(16,345,983)	
Interest received - investment	2,900,000	-	2,900,000	3,461,475	561,475	
Total revenue from exchange transactions	777,721,000	-	777,721,000	453,045,218	(324,675,782)	

Revenue from non-exchange transactions

Taxation revenue

Traffic fines	14,012,000	-	14,012,000	53,411,659	39,399,659	
Property rates	207,596,000	-	207,596,000	174,215,504	(33,380,496)	
Property rates - penalties imposed	-	-	-	51	51	

Transfer revenue

Government grants & subsidies	503,632,000	-	503,632,000	610,988,292	107,356,292	
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Total revenue from non-exchange transactions	725,240,000	-	725,240,000	838,615,506	113,375,506	
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Total revenue	1,502,961,000	-	1,502,961,000	1,291,660,724	(211,300,276)	
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Expenditure

Employee cost	(343,185,000)	-	(343,185,000)	(375,002,366)	(31,817,366)	
Remuneration of councilors	(23,357,000)	-	(23,357,000)	(25,847,608)	(2,490,608)	
Repairs and maintenance	(82,230,000)	-	(82,230,000)	(99,724,093)	(17,494,093)	
Depreciation and amortisation	(280,100,000)	-	(280,100,000)	(266,728,985)	13,371,015	
Finance costs	(4,000,000)	-	(4,000,000)	(1,141,212)	2,858,788	
Debt Impairment	(270,000,000)	-	(270,000,000)	(166,804,767)	103,195,233	
Bulk purchases	(579,200,000)	-	(579,200,000)	(610,927,228)	(31,727,228)	
Contracted Services	(82,143,000)	-	(82,143,000)	(51,121,805)	31,021,195	
Transfers and Subsidies	(115,540,000)	-	(115,540,000)	(115,540,000)	-	
General Expenses	(258,206,000)	-	(258,206,000)	(831,166,975)	(572,960,975)	

Total expenditure	(2,037,961,000)	-	(2,037,961,000)	(2,544,005,039)	(506,044,039)	
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Operating deficit	(535,000,000)	-	(535,000,000)	(1,252,344,315)	(717,344,315)	
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Fair value adjustments	-	-	-	67,790	67,790	
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Deficit before taxation	(535,000,000)	-	(535,000,000)	(1,252,276,525)	(717,276,525)	
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Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	(535,000,000)	-	(535,000,000)	(1,252,276,525)	(717,276,525)	
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Maluti-A-Phofung Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

Statement of Financial Position

Assets

Current Assets

Inventories	2,240,000	-	2,240,000	5,728,012	3,488,012	
Receivables from exchange transactions	793,029,000	-	793,029,000	511,477,917	(281,551,083)	
Receivables from non-exchange transactions	95,711,000	-	95,711,000	85,606,608	(10,104,392)	
VAT receivable	-	-	-	258,791,842	258,791,842	
Long term receivable	678,000	-	678,000	1,864,328	1,186,328	
Cash and cash equivalents	4,382,000	-	4,382,000	7,351,769	2,969,769	
	896,040,000	-	896,040,000	870,820,476	(25,219,524)	

Non-Current Assets

Investment property	71,765,000	-	71,765,000	51,413,117	(20,351,883)	
Property, plant and equipment	3,056,781,000	-	3,056,781,000	3,189,695,709	132,914,709	
Intangible assets	1,343,000	-	1,343,000	1,531,623	188,623	
Investments in controlled entities	-	-	-	300	300	
Other financial assets	477,000	-	477,000	906,586	429,586	
Long term receivable	2,688,000	-	2,688,000	5,258,537	2,570,537	
	3,133,054,000	-	3,133,054,000	3,248,805,872	115,751,872	
Total Assets	4,029,094,000	-	4,029,094,000	4,119,626,348	90,532,348	

Liabilities

Current Liabilities

Other financial liabilities	-	-	-	3,030,233	3,030,233	
Payables from exchange transactions	1,732,336,000	-	1,732,336,000	3,807,324,055	2,074,988,055	
Consumer deposits	12,319,000	-	12,319,000	12,259,360	(59,640)	
Unspent conditional grants and receipts	-	-	-	80,270,411	80,270,411	
	1,744,655,000	-	1,744,655,000	3,902,884,059	2,158,229,059	

Non-Current Liabilities

Other financial liabilities	7,000,000	-	7,000,000	4,542,653	(2,457,347)	
Employee benefit obligation	-	-	-	30,221,000	30,221,000	
Provisions	74,630,000	-	74,630,000	38,252,641	(36,377,359)	
	81,630,000	-	81,630,000	73,016,294	(8,613,706)	

Total Liabilities	1,826,285,000	-	1,826,285,000	3,975,900,353	2,149,615,353	
Net Assets	2,202,809,000	-	2,202,809,000	143,725,995	(2,059,083,005)	

Net Assets

Net Assets Attributable to Owners of Controlling Entity

Reserves

Revaluation reserve	-	-	-	276,825,211	276,825,211	
Accumulated surplus	2,202,809,000	-	2,202,809,000	(133,099,216)	(2,335,908,216)	

Maluti-A-Phofung Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis						
	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Total Net Assets	2,202,809,000		- 2,202,809,000	143,725,995	(2,059,083,005)	

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Annual Financial Statements for the year ended June 30, 2018

Appropriation Statement (unaudited)

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2018											
Financial Performance											
Property rates	207,596,000	(207,596,000)	-	-	-	-	174,215,555	-	174,215,555	DIV/0 %	84 %
Service charges	712,889,000	(712,889,000)	-	-	-	-	436,963,657	-	436,963,657	DIV/0 %	61 %
Investment revenue	2,900,000	(2,900,000)	-	-	-	-	3,461,475	-	3,461,475	DIV/0 %	119 %
Transfers recognised - operational	503,632,000	(503,632,000)	-	-	-	-	495,913,000	-	495,913,000	DIV/0 %	98 %
Other own revenue	75,945,000	(75,945,000)	-	-	-	-	66,099,535	-	66,099,535	DIV/0 %	87 %
Total revenue (excluding capital transfers and contributions)	1,502,962,000	(1,502,962,000)	-	-	-	-	1,176,653,222	-	1,176,653,222	DIV/0 %	78 %
Employee costs	(343,185,000)	343,185,000	-	-	-	-	(375,002,366)	-	(375,002,366)	DIV/0 %	109 %
Remuneration of councilors	(23,357,000)	23,357,000	-	-	-	-	(25,847,608)	-	(25,847,608)	DIV/0 %	111 %
Debt impairment	(270,000,000)	270,000,000	-	-	-	-	(166,804,767)	-	(166,804,767)	DIV/0 %	62 %
Depreciation and asset impairment	(280,100,000)	280,100,000	-	-	-	-	(266,728,985)	-	(266,728,985)	DIV/0 %	95 %
Finance charges	(4,000,000)	4,000,000	-	-	-	-	(1,141,212)	-	(1,141,212)	DIV/0 %	29 %
Materials and bulk purchases	(661,430,000)	661,430,000	-	-	-	-	(610,927,228)	-	(610,927,228)	DIV/0 %	92 %
Transfers and grants	(115,540,000)	115,540,000	-	-	-	-	(115,540,000)	-	(115,540,000)	DIV/0 %	100 %
Other expenditure	(340,350,000)	340,350,000	-	-	-	-	(982,012,873)	-	(982,012,873)	DIV/0 %	289 %
Total expenditure	(2,037,962,000)	2,037,962,000	-	-	-	-	(2,544,005,039)	-	(2,544,005,039)	DIV/0 %	125 %
Surplus/(Deficit)	(535,000,000)	535,000,000	-	-	-	-	(1,367,351,817)	-	(1,367,351,817)	DIV/0 %	256 %

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Annual Financial Statements for the year ended June 30, 2018

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	-	-	-	-		-	115,075,292		115,075,292	DIV/0 %	DIV/0 %
Surplus (Deficit) after capital transfers and contributions	(535,000,000)	535,000,000		-	-		-(1,252,276,525)		(1,252,276,525)	DIV/0 %	234 %
Surplus/(Deficit) for the year	(535,000,000)	535,000,000		-	-		-(1,252,276,525)		(1,252,276,525)	DIV/0 %	234 %

Capital expenditure and funds sources

Maluti-A-Phofung Local Municipality

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Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand. All figures are rounded to the nearest Rand.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.2 Consolidation

Basis of consolidation

Consolidated annual financial statements are the annual financial statements of the municipality presented as those of a single entity.

The consolidated annual financial statements incorporate the annual financial statements of the controlling municipality and all controlled entity, including special purpose entities, which are controlled by the municipality.

Consolidated annual financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Control exists when the municipality has the power to govern the financial and operating policies of another entity so as to obtain benefits from its activities.

The revenue and expenses of a controlled entity are included in the consolidated annual financial statements from the transfer date or acquisition date as defined in the Standards of GRAP on Transfer of functions between entities under common control or Transfer of functions between entities not under common control. The revenue and expenses of the controlled entity are based on the values of the assets and liabilities recognised in the controlling municipality's annual financial statements at the acquisition date.

The annual financial statements of the municipality and its controlled entities used in the preparation of the consolidated annual financial statements are prepared as of the same date.

All intra-entity transactions, balances, revenues and expenses are eliminated in full on consolidation.

1.3 Significant judgments and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgment is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgments include:

Maluti-A-Phofung Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Accounting Policies

1.3 Significant judgments and sources of estimation uncertainty (continued)

Receivables

The municipality assesses its receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgments as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for receivables is calculated on a portfolio basis. For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment.

Allowance for slow moving, damaged and obsolete inventory

An assessment is made of net realisable value at the end of each reporting period. A write down of inventory to the lower of cost or net realisable value is subsequently provided. Management has made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the surplus or deficit.

Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumptions may change, due to changes made to the debtors policy which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

Value in use of cash generating assets:

The municipality reviews and tests the carrying value of cash generating assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors, together with economic factors such as exchange rates, inflation and interest rates.

Value in use of non-cash generating assets:

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment may have occurred, the remaining service potential of the asset is determined. The most appropriate approach selected to determine the remaining service potential is dependent on the availability of data and the nature of the impairment.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 18 - Provisions.

Maluti-A-Phofung Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Accounting Policies

1.3 Significant judgments and sources of estimation uncertainty (continued)

Useful lives of property, plant and equipment and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for property, plant and equipment and other assets. This estimate is based on industry norms and on the pattern in which an asset's future economic benefits or service potential is expected to be consumed by the municipality.

Post retirement and other long term benefits

The present value of the post retirement obligation and other long-term employee obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the obligations. In determining the appropriate discount rate, the municipality considers market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, the municipality uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Other key assumptions for post retirement and other long-term employee obligations are based on current market conditions. Additional information is disclosed in note 8.

Effective interest rate

The municipality used the incremental borrowing rate to discount future cash flows.

Allowance for impairment

On receivables an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the receivables carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services; or for
- administrative purposes; or
- sale in the ordinary course of operations.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that is associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is unrecognised.

Fair value

Subsequent to initial measurement investment property is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated impairment losses.

The fair value of investment property reflects market conditions at the reporting date.

Maluti-A-Phofung Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Accounting Policies

1.4 Investment property (continued)

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same class of asset previously recognised in surplus or deficit.

- managements' intended usage of the property, and
- the extend to which it is owner occupied .

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost or fair value of the item can be measured reliably.

Property, plant and equipment are initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost), unless the fair value of neither the asset received nor the asset given is reliably measurable. If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the municipality is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Infrastructure and other assets are carried at the cost less accumulated depreciation and any impairment loss.

Land , buildings , community assets are carried at the revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which could be determined using fair value at the end of the reporting period.

Maluti-A-Phofung Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Accounting Policies

1.5 Property, plant and equipment (continued)

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value. The depreciation charge for each period is recognised in surplus or deficit.

The gain or loss arising from the derecognition of an item of property, plant and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Property, plant and equipment are depreciated over their expected useful lives to their estimated residual value. The depreciation charge for each period is recognised in surplus or deficit.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land		Indefinite
Buildings	Straight line	60 years
Community	Straight line	60 years
Infrastructure	Straight line	15 - 80 years
Other assets	Straight line	1 - 10 years

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Assets of the municipality are derecognised when the assets are disposed of or when there are no further economic benefits or service potential expected from the use of the assets.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Compensation from third parties for an item of property, plant and equipment that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 4&55).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statement (see note 4).

Maluti-A-Phofung Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Accounting Policies

1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation which the municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the revaluation model:

- (a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
 - a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
 - an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- (b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
- (c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

1.7 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from the municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the municipality intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Intangible assets are initially measured at cost.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale;
- there is an intention to complete and use or sell it;
- there is an ability to use or sell it;
- it will generate probable future economic benefits or service potential;
- there are available technical, financial and other resources to complete the development and to use or sell the asset; and
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

Maluti-A-Phofung Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Accounting Policies

1.7 Intangible assets (continued)

Subsequent to initial measurement intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An entity shall assess the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Average expected useful life
Computer software	3 - 5 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an intangible asset is the difference between the net disposal proceeds and the carrying amount and is included in surplus or deficit when the asset is derecognised.

1.8 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

Cash generating assets are assets held with the primary objective of generating a commercial return. Assets generate a commercial return when the municipality intends to generate positive cash flow from the asset.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Maluti-A-Phofung Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Accounting Policies

1.8 Impairment of cash-generating assets (continued)

Value in use

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality uses management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the municipality does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Maluti-A-Phofung Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Accounting Policies

1.8 Impairment of cash-generating assets (continued)

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Reversal of impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.9 Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

Criteria developed by the municipality to distinguish non-cash-generating assets from cash-generating assets are as follow: Non-cash generating assets are assets primarily held for service delivery purposes.

Irrespective of whether there is any indication of impairment, an entity shall also test an intangible asset with an indefinite useful life or an intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test may be performed at any time during the reporting period, provided it is performed at the same time every year. Different intangible assets may be tested for impairment at different times. However, if such an intangible asset was initially recognised during the current reporting period, that intangible asset shall be tested for impairment before the end of the current reporting period.

Maluti-A-Phofung Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Accounting Policies

1.9 Impairment of non-cash-generating assets (continued)

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Maluti-A-Phofung Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Accounting Policies

1.9 Impairment of non-cash-generating assets (continued)

Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.10 Investments in controlled entities

In the municipality's separate annual financial statements, investments in controlled entities are carried at cost.

The municipality applies the same accounting for each category of investment.

The municipality recognises a dividend or similar distribution in surplus or deficit in its separate annual financial statements when its right to receive the dividend or similar distribution is established.

1.11 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

Maluti-A-Phofung Local Municipality

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Accounting Policies

1.11 Financial instruments (continued)

Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
Long term receivables (current)	Financial asset measured at amortised cost
Long term receivables (non-current)	Financial asset measured at amortised cost
Other financial asset	Financial asset measured at fair value
Investment in controlled entity	Financial asset carried at cost

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Other financial liabilities	Financial liability measured at amortised cost
Bank overdraft	Financial liability measured at amortised cost
Unspent conditional grants and receipts	Financial liability measured at amortised cost

Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Maluti-A-Phofung Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Accounting Policies

1.11 Financial instruments (continued)

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the municipality uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, the municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

Short-term receivables and payables are not discounted where the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The municipality assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Maluti-A-Phofung Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Accounting Policies

1.11 Financial instruments (continued)

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality:
 - derecognises the asset; and
 - recognises separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expired or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (taxes and transfers).

1.12 Statutory receivables

Identification

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

Recognition

The municipality recognises statutory receivables as follows:

- if the transaction is an exchange transaction, using the accounting policy on Revenue from exchange transactions;
- if the transaction is a non-exchange transaction, using the accounting policy on Revenue from non-exchange transactions (Taxes and transfers); or
- if the transaction is not within the scope of the accounting policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the municipality and the transaction amount can be measured reliably.

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Accounting Policies

1.12 Statutory receivables (continued)

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:

- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

Accrued interest

Where the municipality levies interest on the outstanding balance of statutory receivables, it adjusts the transaction amount after initial recognition to reflect any accrued interest. Accrued interest is calculated using the nominal interest rate.

Interest on statutory receivables is recognised as revenue in accordance with the accounting policy on Revenue from exchange transactions or the accounting policy on Revenue from non-exchange transactions (taxes and transfers), whichever is applicable.

Other charges

Where the municipality is required or entitled to levy additional charges in terms of legislation, supporting regulations, by-laws or similar means on overdue or unpaid amounts, these charges are accounted for in terms of the municipality's accounting policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (taxes and transfers) whichever is applicable.

Impairment losses

The municipality assesses at each reporting date whether there is any indication that a statutory receivable, or a group of statutory receivables, may be impaired.

In assessing whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired, the municipality considers, as a minimum, the following indicators:

- significant financial difficulty of the receivable, which may be evidenced by an application for debt counselling, business rescue or an equivalent.
- it is probable that the receivable will enter sequestration, liquidation or other financial re-organisation.
- a breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied).
- adverse changes in international, national or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.

If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the municipality measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable, or group of statutory receivables, is reduced through the use of an allowance account. The amount of the losses are recognised in surplus or deficit.

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows.

Any previously recognised impairment loss is adjusted by adjusting the allowance account. The adjustment does not result in the carrying amount of the statutory receivable, or group of statutory receivables exceeding what the carrying amount of the receivable(s) would have been had the impairment loss not been recognised at the date the impairment is revised. The amount of any adjustment is recognised in surplus or deficit.

Derecognition

The municipality derecognises a statutory receivable, or a part thereof, when:

- the rights to the cash flows from the receivable are settled, expire or are waived;

Maluti-A-Phofung Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Accounting Policies

1.12 Statutory receivables (continued)

- the municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable; or
- the municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable to another party and the other party has the practical ability to sell the receivable in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality:
 - derecognises the receivable; and
 - recognises separately any rights and obligations created or retained in the transfer.

The carrying amounts of any statutory receivables transferred are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. The municipality considers whether any newly created rights and obligations are within the scope of the Standard of GRAP on Financial Instruments or another Standard of GRAP. Any difference between the consideration received and the amounts derecognised and, those amounts recognised, are recognised in surplus or deficit in the period of the transfer.

1.13 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for:

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amount of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.14 Value-added Tax (VAT)

The municipality is registered with the South African Revenue Services (SARS) for VAT on the payments basis, in accordance with Section 15(2) of the VAT Act (Act No. 89 of 1991).

Maluti-A-Phofung Local Municipality

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Accounting Policies

1.15 Employee benefits

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered a service to the municipality during a reporting period, the municipality recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measures the expected cost of accumulating compensated absences as the additional amount that the municipality expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The municipality recognises the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the municipality has no realistic alternative but to make the payments.

Multi-employer plans and/or State plans and/or Composite social security programmes

The municipality classifies a multi-employer plan and/or state plans and/or composite social security programmes as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

Where a plan is a defined contribution plan, the municipality accounts for it in the same way as for any other defined contribution plan.

Where a plan is a defined benefit plan, the municipality accounts for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan.

When sufficient information is not available to use defined benefit accounting for a plan, that is a defined benefit plan, the municipality accounts for the plan as if it was a defined contribution plan.

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered services to the municipality during a reporting period, the municipality recognises the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, the municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Maluti-A-Phofung Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Accounting Policies

1.15 Employee benefits (continued)

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money are consistent with the currency and estimated term of the obligation.

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognises actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

The municipality accounts not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the municipality's informal practices. Informal practices give rise to a constructive obligation where the municipality has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the municipality's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the municipality re-measures the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

Maluti-A-Phofung Local Municipality

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Accounting Policies

1.15 Employee benefits (continued)

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The municipality offsets an asset relating to one plan against a liability relating to another plan when the municipality has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either, those changes were enacted before the reporting date; or past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Other long-term employee benefits

The municipality has an obligation to provide long-term service allowance benefits to all of its employees.

The municipality's liability is based on an actuarial valuation. The Projected Unit Credit Method to determine the present value of the obligations.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The municipality recognises the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost; and
- actuarial gains and losses which shall all be recognised immediately.

Termination benefits

The municipality recognises termination benefits as a liability and an expense when the municipality is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The municipality is demonstrably committed to a termination when the municipality has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes (as a minimum):

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Maluti-A-Phofung Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Accounting Policies

1.15 Employee benefits (continued)

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than twelve months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits is based on the number of employees expected to accept the offer.

1.16 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits

If the municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 44.

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, are accounted for as follows:

If the related asset is measured using the revaluation model:

- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and

Maluti-A-Phofung Local Municipality

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Accounting Policies

1.16 Provisions and contingencies (continued)

- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability are recognised in surplus or deficit as they occur.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.17 Accumulated surplus

The accumulated surplus represents the net difference between the total assets and the total liabilities of the municipality. Any surpluses and deficits realised during a specific financial year are credited/debited against accumulated surplus/deficit. Prior year adjustments, relating to income and expenditure, are debited/credited against accumulated surplus when retrospective adjustments are made.

1.18 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

1.19 Accounting by principals and agents

Identification

A principal-agent arrangement results from a binding arrangement in which one entity (an agent), undertakes transactions with third parties on behalf, and for the benefit of, another entity (the principal).

Identifying whether an entity is a principal or an agent

The assessment of whether an municipality is a principal or an agent requires the municipality to assess whether the transactions it undertakes with third parties are for the benefit of another entity or for its own benefit.

Assessing which entity benefits from the transactions with third parties

The municipality is an agent when, in relation to transactions with third parties, all three of the following criteria are present:

- It does not have the power to determine the significant terms and conditions of the transaction.
- It does not have the ability to use all, or substantially all, of the resources that result from the transaction for its own benefit.
- It is not exposed to variability in the results of the transaction.

Where the municipality has been granted specific powers in terms of legislation to direct the terms and conditions of particular transactions, it is not required to consider the criteria of whether it does not have the power to determine the significant terms and conditions of the transaction, to conclude that is an agent. The municipality applies judgement in determining whether such powers exist and whether they are relevant in assessing whether the municipality is an agent.

Maluti-A-Phofung Local Municipality

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Accounting Policies

1.19 Accounting by principals and agents (continued)

Recognition

The municipality, as a principal, recognises revenue and expenses that arise from transactions with third parties in a principal-agent arrangement in accordance with the requirements of the relevant Standards of GRAP.

The municipality, as an agent, recognises only that portion of the revenue and expenses it receives or incurs in executing the transactions on behalf of the principal in accordance with the requirements of the relevant Standards of GRAP.

The municipality recognises assets and liabilities arising from principal-agent arrangements in accordance with the requirements of the relevant Standards of GRAP.

1.20 Service concession arrangements: Entity as grantor

Identification

Service concession arrangement is a contractual arrangement between a grantor and an operator in which an operator uses the services concession asset to provide a mandated function on behalf of a grantor for a specified period, where the operator is compensated for its services over the period of service concession arrangement.

Recognition of asset and liability

The municipality recognises an asset provided by the operator and an upgrade to an existing asset of the municipality, as a service concession asset if the entity controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price, and if the municipality controls (through ownership, beneficial entitlement or otherwise) any significant residual interest in the asset at the end of the term of the arrangement. This applies to an asset used in a service concession arrangement for its entire economic life (a "whole-of-life" asset).

After initial recognition or reclassification, service concession assets are clearly identified from other assets within the same asset category, and are clearly identified from owned and/or leased assets.

Where the municipality recognises a service concession asset, and the asset is not an existing asset of the municipality (grantor), the entity (grantor) also recognises a liability.

The municipality does not recognise a liability when an existing asset of the municipality is reclassified as a service concession asset, except in circumstances where additional consideration is provided by the operator.

Measurement of asset and liability

The entity initially measures the service concession asset as follows:

- Where the asset is not an existing asset of the entity, the asset is measured at its fair value.
- Where the asset is an existing asset of the entity and it meets the recognition criteria of a service concession asset, the asset is reclassified as a service concession asset, and the asset is accounted for in accordance with the policy on Investment property, Property, plant and equipment, Intangible assets, or Heritage assets, as appropriate.

The municipality initially measures the liability at the same amount as the service concession asset, adjusted by the amount of any other consideration from the entity to the operator, or from the operator to the municipality.

Maluti-A-Phofung Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Accounting Policies

1.20 Service concession arrangements: Entity as grantor (continued)

Financial liability model

Where the municipality has an unconditional obligation to pay cash or another financial asset to the operator for the construction, development, acquisition, or upgrade of a service concession asset, the municipality accounts for the liability as a financial liability.

The municipality allocates the payments to the operator and accounts for them according to their substance as a reduction in the liability recognised, a finance charge, and charges for services provided by the operator.

The finance charge and charges for services provided by the operator in a service concession arrangement are accounted for as expenses.

Where the asset and service components of a service concession arrangement are separately identifiable, the service components of payments from the municipality to the operator are allocated by reference to the relative fair values of the service concession asset and the services.

Where the asset and service components are not separately identifiable, the service component of payments from the municipality to the operator is determined using estimation techniques.

Grant of a right to the operator model

Where the municipality does not have an unconditional obligation to pay cash or another financial asset to the operator for the construction, development, acquisition, or upgrade of a service concession asset, and grants the operator the right to earn revenue from third-party users or another revenue-generating asset, the municipality accounts for the liability as the unearned portion of the revenue arising from the exchange of assets between the municipality and the operator.

The municipality recognises revenue and reduces the liability according to the substance of the service concession arrangement.

Dividing the arrangement

When the municipality pays for the construction, development, acquisition, or upgrade of a service concession asset partly by incurring a financial liability and partly by the grant of a right to the operator, it accounts separately for each part of the total liability.

Other liabilities, contingent liabilities and contingent assets

The municipality accounts for other liabilities, contingent liabilities, and contingent assets arising from a service concession arrangement in accordance with the policy on Provisions, Contingent liabilities and contingent assets and Financial instruments.

Other revenues

The municipality accounts for revenues from a service concession arrangement, other than those relating to the grant of a right to the operator model, in accordance with the Standard of GRAP on Revenue from exchange transactions.

Recognition of the performance obligation and the right to receive a significant interest in a service concession asset

When the municipality controls a significant residual interest in a service concession asset at the end of the service concession arrangement through ownership, beneficial entitlement or otherwise, and the arrangement does not constitute a finance or an operating lease, the entity recognises its right to receive the residual interest (i.e. a receivable) in the service concession asset at the commencement of the arrangement.

The right to receive a residual interest in the service concession asset to be received at the end of the arrangement, is an exchange consideration. This is because the entity will receive an asset in exchange for granting the operator access to the asset while providing a mandated function on its behalf in accordance with the substance of the arrangement.

Maluti-A-Phofung Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Accounting Policies

1.20 Service concession arrangements: Entity as grantor (continued)

In terms of the policy on Revenue from exchange transactions, the exchange consideration are recognised and measured at fair value. The value of the receivable (the right to the residual interest in the asset), receivable at the end of the service concession arrangement, reflects the value of the service concession asset as if it were already in the age and in the condition expected at the end of the service concession arrangement.

When the municipality recognises the right to receive a residual interest in the service concession asset, it also recognises its performance obligation for granting the operator access to the service concession asset in accordance with the substance of the arrangement. The value of the performance obligation is the same as the receivable interest recognised at the commencement of the service concession arrangement.

The performance obligation is reduced and revenue is recognised based on the substance of the arrangement.

Where service concession arrangements include provisions to adjust the arrangement for changes, the effect of such changes is deemed to have taken place at the inception of the service concession arrangements.

1.21 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by surveys of work performed.

Maluti-A-Phofung Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Accounting Policies

1.21 Revenue from exchange transactions (continued)

Interest and dividends

Revenue arising from the use by others of municipal assets yielding interest, royalties and dividends or similar distributions is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

1.22 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by the municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, the municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

Maluti-A-Phofung Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Accounting Policies

1.22 Revenue from non-exchange transactions (continued)

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Property rates

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources.

Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Transfers

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Debt forgiveness and assumption of liabilities

The municipality recognises revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality. The municipality makes use of estimates to determine the amount of revenue that it is entitled to collect. Where settlement discounts or reductions in the amount payable are offered, the municipality considers the past history in assessing the likelihood of these discounts or reductions being taken up by receivables.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting municipality.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in-kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Maluti-A-Phofung Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Accounting Policies

1.22 Revenue from non-exchange transactions (continued)

Services in-kind

Except for financial guarantee contracts, the municipality recognises services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the asset can be measured reliably.

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality discloses the nature and type of services in-kind received during the reporting period.

Concessionary loans received

A concessionary loan is a loan granted to or received by the municipality on terms that are not market related.

The portion of the loan that is repayable, along with any interest payments, is an exchange transaction and is accounted for in accordance with the Standard of GRAP on Financial Instruments. The off-market portion of the loan is a non-exchange transaction. The off-market portion of the loan that is recognised as non-exchange revenue is calculated as the difference between the proceeds received from the loan, and the present value of the contractual cash flows of the loan, discounted using a market related rate of interest.

The recognition of revenue is determined by the nature of any conditions that exist in the loan agreement that may give rise to a liability. Where a liability exists the municipality recognises revenue as and when it satisfies the conditions of the loan agreement.

1.23 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.24 Borrowing costs

Borrowing costs are interest and other expenses incurred by the municipality in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.25 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the municipality assesses the classification of each element separately.

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

Maluti-A-Phofung Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Accounting Policies

1.25 Leases (continued)

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the municipality's incremental borrowing rate.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in the statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Any contingent rent are expensed in the period in which they are incurred.

1.26 Grant in aid

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the statement of financial performance as expenses in the period that the events given raise to the transfer occurred.

1.27 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year. Refer to note 46 for detail.

1.28 Commitments

Items are classified as commitments when the municipality has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation are disclosed in a note to the financial statements, if both the following criteria are met:

Maluti-A-Phofung Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Accounting Policies

1.28 Commitments (continued)

- contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- contracts should relate to something other than the routine, steady, state business of the municipality – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.29 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.30 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.31 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure.

All expenditure relating to irregular expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.32 Budget information

The approved budget is prepared on an accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 7/1/2017 to 6/30/2017.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the statement of comparison of budget and actual amounts.

The budget for the economic entity includes all the entities approved budgets under its control.

1.33 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

Maluti-A-Phofung Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Accounting Policies

1.34 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality adjusts the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality discloses the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.35 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of the municipality after deducting all of its liabilities.

Maluti-A-Phofung Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
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Notes to the Annual Financial Statements

Figures in Rand	2018	2017
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2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

2.2 Standards and Interpretations early adopted

The municipality has chosen to early adopt the following standards and interpretations:

GRAP 104 (amended): Financial Instruments

Following the global financial crisis, a number of concerns were raised about the accounting for financial instruments. This included that (a) information on credit losses and defaults on financial assets was received too late to enable proper decision-making, (b) using fair value in certain instances was inappropriate, and (c) some of the existing accounting requirements were seen as too rules based. As a result, the International Accounting Standards Board® amended its existing Standards to deal with these issues. The IASB issued IFRS® Standard on Financial Instruments (IFRS 9) in 2009 to address many of the concerns raised. Revisions were also made to IAS® on Financial Instruments: Presentation and the IFRS Standard® on Financial Instruments: Disclosures. The IPSASB issued revised International Public Sector Accounting Standards in June 2018 so as to align them with the equivalent IFRS Standards.

The revisions better align the Standards of GRAP with recent international developments. The amendments result in better information available to make decisions about financial assets and their recoverability, and more transparent information on financial liabilities.

The most significant changes to the Standard affect:

- Financial guarantee contracts issued
- Loan commitments issued
- Classification of financial assets
- Amortised cost of financial assets
- Impairment of financial assets
- Disclosures

The effective date of the amendment is not yet set by the Minister of Finance.

The municipality has early adopted the amendment for the first time when the Minister sets the effective date for the amendment.

The impact of the standard is not material.

Guideline: Guideline on Accounting for Landfill Sites

The objective of this guideline: The Constitution of South Africa, 1996 (Act No. 108 of 1996) (the constitution), gives local government the executive authority over the functions of cleaning, refuse removal, refuse dumps and solid waste disposal. Even though waste disposal activities are mainly undertaken by municipalities, other public sector entities may also be involved in these activities from time to time. Concerns were raised about the inconsistent accounting practices for landfill sites and the related rehabilitation provision where entities undertake waste disposal activities. The objective of the Guideline is therefore to provide guidance to entities that manage and operate landfill sites. The guidance will improve comparability and provide the necessary information to the users of the financial statements to hold entities accountable and for decision making. The principles from the relevant Standards of GRAP are applied in accounting for the landfill site and the related rehabilitation provision. Where appropriate, the Guideline also illustrates the accounting for the land in a landfill, the landfill site asset and the related rehabilitation provision.

It covers: Overview of the legislative requirements that govern landfill sites, Accounting for land, Accounting for the landfill site asset, Accounting for the provision for rehabilitation, Closure, End-use and monitoring, Other considerations, and Annexures with Terminology & References to pronouncements used in the Guideline.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The effective date of the guideline is not yet set by the Minister of Finance.

The municipality has early adopted the guideline for the first time when the Minister sets the effective date for the guideline.

The impact of the standard is not material.

Guideline: Guideline on the Application of Materiality to Financial Statements

The objective of this guideline: The objective of this Guideline is to provide guidance that will assist entities to apply the concept of materiality when preparing financial statements in accordance with Standards of GRAP. The Guideline aims to assist entities in achieving the overall financial reporting objective. The Guideline outlines a process that may be considered by entities when applying materiality to the preparation of financial statements. The process was developed based on concepts outlined in Discussion Paper 9 on Materiality – Reducing Complexity and Improving Reporting, while also clarifying existing principles from the Conceptual Framework for General Purpose Financial Reporting and other relevant Standards of GRAP. The Guideline includes examples and case studies to illustrate how an entity may apply the principles in the Guideline, based on specific facts presented.

It covers: Definition and characteristics of materiality, Role of materiality in the financial statements, Identifying the users of financial statements and their information needs, Assessing whether information is material, Applying materiality in preparing the financial statements, and Appendixes with References to the Conceptual Framework for General Purpose Financial Reporting and the Standards of GRAP & References to pronouncements used in the Guideline.

The effective date of the guideline is not yet set by the Minister of Finance.

The municipality has early adopted the guideline for the first time when the Minister sets the effective date for the guideline.

The impact of the standard is not material.

IGRAP 20: Accounting for Adjustments to Revenue

As per the background to this Interpretation of the Standards of GRAP, there are a number of legislative and regulatory processes that govern how entities levy, charge or calculate revenue, in the public sector. Adjustments to revenue already recognised in terms of legislation or similar means arise from the completion of an internal review process within the entity, and/or the outcome of an external appeal or objection process undertaken in terms of legislation or similar means. Adjustments to revenue include any refunds that become payable as a result of the completion of a review, appeal or objection process. The adjustments to revenue already recognised following the outcome of a review, appeal or objection process can either result in a change in an accounting estimate, or a correction of an error.

As per the scope, this Interpretation of the Standards of GRAP clarifies the accounting for adjustments to exchange and non-exchange revenue charged in terms of legislation or similar means, and interest and penalties that arise from revenue already recognised as a result of the completion of a review, appeal or objection process. Changes to the measurement of receivables and payables, other than those changes arising from applying this Interpretation, are dealt with in accordance with the applicable Standards of GRAP. The principles in this Interpretation may be applied, by analogy, to the accounting for adjustments to exchange or non-exchange revenue that arises from contractual arrangements where the fact patterns are similar to those in the Interpretation.

The interpretation sets out the issues and relating consensus with accounting for adjustments to revenue.

The effective date of the interpretation is for years beginning on or after April 1, 2020.

The municipality has early adopted the interpretation for the first time in the 2017/2018 annual financial statements.

The impact of the standard is not material.

GRAP 1 (amended): Presentation of Financial Statements

Amendments to this Standard of GRAP, are primarily drawn from the IASB's Amendments to IAS 1.

Summary of amendments are:

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

Materiality and aggregation

The amendments clarify that:

- information should not be obscured by aggregating or by providing immaterial information;
- materiality considerations apply to all parts of the financial statements; and
- even when a Standard of GRAP requires a specific disclosure, materiality considerations apply.

Statement of financial position and statement of financial performance

The amendments clarify that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements.

Notes structure

The amendments add examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order listed in GRAP 1.

Disclosure of accounting policies

Remove guidance and examples with regards to the identification of significant accounting policies that were perceived as being potentially unhelpful.

An municipality applies judgement based on past experience and current facts and circumstances.

The effective date of this amendment is for years beginning on or after April 1, 2020.

The municipality has early adopted the interpretation for the first time in the 2017/2018 annual financial statements.

The impact of the amendment is not material.

GRAP 34: Separate Financial Statements

The objective of this Standard is to prescribe the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements.

It furthermore covers Definitions, Preparation of separate financial statements, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is for years beginning on or after April 1, 2020.

The municipality has early adopted the standard for the first time in the 2017/2018 annual financial statements.

The impact of the standard is not material.

GRAP 35: Consolidated Financial Statements

The objective of this Standard is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

To meet this objective, the Standard:

- requires an entity (the controlling entity) that controls one or more other entities (controlled entities) to present consolidated financial statements;
- defines the principle of control, and establishes control as the basis for consolidation;
- sets out how to apply the principle of control to identify whether an entity controls another entity and therefore must consolidate that entity;
- sets out the accounting requirements for the preparation of consolidated financial statements; and
- defines an investment entity and sets out an exception to consolidating particular controlled entities of an investment entity.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

It furthermore covers Definitions, Control, Accounting requirements, Investment entities: Fair value requirement, Transitional provisions and Effective date.

The effective date of the standard is for years beginning on or after April 1, 2020.

The municipality expects to adopt the standard for the first time in the 2017/2018 annual financial statements.

The impact of the standard is not material.

GRAP 36: Investments in Associates and Joint Ventures

The objective of this Standard is to prescribe the accounting for investments in associates and joint ventures and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

It furthermore covers Definitions, Significant influence, Equity method, Application of the equity method, Separate financial statements, Transitional provisions and Effective date.

The effective date of the standard is for years beginning on or after April 1, 2020.

The municipality has early adopted the standard for the first time in the 2017/2018 annual financial statements.

The impact of the standard is not material.

GRAP 38: Disclosure of Interests in Other Entities

The objective of this Standard is to require an entity to disclose information that enables users of its financial statements to evaluate:

- the nature of, and risks associated with, its interests in controlled entities, unconsolidated controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and
- the effects of those interests on its financial position, financial performance and cash flows.

It furthermore covers Definitions, Disclosing information about interests in other entities, Significant judgements and assumptions, Investment entity status, Interests in controlled entities, Interests in joint arrangements and associates, Interests in structured entities that are not consolidated, Non-qualitative ownership interests, Controlling interests acquired with the intention of disposal, Transitional provisions and Effective date.

The effective date of the standard is for years beginning on or after April 1, 2020.

The municipality has early adopted the standard for the first time in the 2017/2018 annual financial statements.

The impact of the standard is not material.

GRAP 110 (as amended 2016): Living and Non-living Resources

The objective of this Standard is to prescribe the:

- recognition, measurement, presentation and disclosure requirements for living resources; and
- disclosure requirements for non-living resources

It furthermore covers Definitions, Recognition, Measurement, Depreciation, Impairment, Compensation for impairment, Transfers, Derecognition, Disclosure, Transitional provisions and Effective date.

The subsequent amendments to the Standard of GRAP on Living and Non-living Resources resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 17 on Property, Plant and Equipment (IPSAS 17) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015 and Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23; and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when a living resource is revalued; To clarify acceptable methods of depreciating assets; and To define a bearer plant and include bearer plants within the scope of GRAP 17 or GRAP 110, while the produce growing on bearer plants will remain within the scope of GRAP 27

The effective date of the standard is for years beginning on or after April 1, 2020.

The municipality has early adopted the standard for the first time in the 2018/2018 annual financial statements.

The impact of the standard is not material.

GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements

The definition of 'minority interest' has been amended to 'non-controlling interest', and paragraph .60 was added by the Improvements to the Standards of GRAP issued in November 2010. If an entity elects to apply these amendments earlier, it shall disclose this fact.

Paragraph .59 was amended by Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107] from the date at which it first applied the Standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations. If an entity elects to apply these amendments earlier, it shall disclose this fact.

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers amended paragraphs .03, .39, .47 to .50 and added paragraphs .51 to .58 and .61 to .62. An entity shall apply these amendments when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

The effective date of the amendment is for years beginning on or after April 1, 2019.

The municipality has early adopted the amendment for the first time in the 2018/2018 annual financial statements.

The impact of the amendment is not material.

GRAP 7 (as revised 2010): Investments in Associates

Paragraphs .03 and .42 were amended by the Improvements to the Standards of GRAP issued in November 2010. If an entity elects to apply these amendments earlier, it shall disclose this fact.

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers amended paragraphs .22, .28 and .38 and added paragraph .24. An entity shall apply these amendments and addition when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

The effective date of the standard is for years beginning on or after April 1, 2019.

The municipality has early adopted the standard for the first time in the 2018/2018 annual financial statements.

The impact of the amendment is not material.

GRAP 18 (as amended 2016): Segment Reporting

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

The subsequent amendments to the Standard of GRAP on Segment Reporting resulted from editorial and other changes to the original text have been made to ensure consistency with other Standards of GRAP.

The most significant changes to the Standard are:

- General improvements: An appendix with illustrative segment disclosures has been deleted from the Standard as the National Treasury has issued complete examples as part of its implementation guidance.

The effective date of the standard is for years beginning on or after April 1, 2019

The municipality has early adopted the standard for the first time in the 2018/2018 annual financial statements.

The impact of the standard is not material.

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
 - has control or joint control over the reporting entity;
 - has significant influence over the reporting entity;
 - is a member of the management of the entity or its controlling entity.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- An entity is related to the reporting entity if any of the following conditions apply:
 - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
 - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
 - both entities are joint ventures of the same third party;
 - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
 - the entity is controlled or jointly controlled by a person identified in (a); and
 - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is for years beginning on or after April 1, 2019.

The municipality has early adopted the standard for the first time in the 2018/2018 annual financial statements.

The impact of the standard is not material.

IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. This Interpretation of the Standards of GRAP shall not be applied by analogy to other types of transactions or arrangements.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

A consensus is reached, in this Interpretation of the Standards of GRAP, on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The effective date of the interpretation is not yet set by the Minister of Finance.

The municipality has early adopted the interpretation for the first time when the Minister sets the effective date for the interpretation.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The impact of the interpretation is not material.

IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land

This Interpretation of the Standards of GRAP applies to the initial recognition and derecognition of land in an entity's financial statements. It also considers joint control of land by more than one entity.

When an entity concludes that it controls the land after applying the principles in this Interpretation of the Standards of GRAP, it applies the applicable Standard of GRAP, i.e. the Standard of GRAP on Inventories, Investment Property (GRAP 16), Property, Plant and Equipment (GRAP 17) or Heritage Assets. As this Interpretation of the Standards of GRAP does not apply to the classification, initial and subsequent measurement, presentation and disclosure requirements of land, the entity applies the applicable Standard of GRAP to account for the land once control of the land has been determined. An entity also applies the applicable Standards of GRAP to the derecognition of land when it concludes that it does not control the land after applying the principles in this Interpretation of the Standards of GRAP.

In accordance with the principles in the Standards of GRAP, buildings and other structures on the land are accounted for separately. These assets are accounted for separately as the future economic benefits or service potential embodied in the land differs from those included in buildings and other structures. The recognition and derecognition of buildings and other structures are not addressed in this Interpretation of the Standards of GRAP.

The effective date of the interpretation is for years beginning on or after April 1, 2019.

The municipality has early adopted the interpretation for the first time in the 2018/2018 annual financial statements.

The impact of the interpretation is not material.

IGRAP 19: Liabilities to Pay Levies

This Interpretation of the Standards of GRAP provides guidance on the accounting for levies in the financial statements of the entity that is paying the levy. It clarifies when entities need to recognise a liability to pay a levy that is accounted for in accordance with GRAP 19.

To clarify the accounting for a liability to pay a levy, this Interpretation of the Standards of GRAP addresses the following issues:

- What is the obligating event that gives rise to the recognition of a liability to pay a levy?
- Does economic compulsion to continue to operate in a future period create a constructive obligation to pay a levy that will be triggered by operating in that future period?
- Does the going concern assumption imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period?
- Does the recognition of a liability to pay a levy arise at a point in time or does it, in some circumstances, arise progressively over time?
- What is the obligating event that gives rise to the recognition of a liability to pay a levy that is triggered if a minimum threshold is reached?

Consensus reached in this interpretation:

- The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation;
- An entity does not have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period;
- The preparation of financial statements under the going concern assumption does not imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period;
- The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time;
- If an obligation to pay a levy is triggered when a minimum threshold is reached, the accounting for the liability that arises from that obligation shall be consistent with the principles established in this Interpretation of the Standards of GRAP; and
- An entity shall recognise an asset, in accordance with the relevant Standard of GRAP, if it has prepaid a levy but does not yet have a present obligation to pay that levy.

The effective date of the interpretation is not yet set by the Minister of Finance.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The municipality has early adopted the interpretation for the first time when the Minister sets the effective date for the interpretation.

The impact of the interpretation is not material.

GRAP 12 (as amended 2016): Inventories

Amendments to the Standard of GRAP on Inventories resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 12 on Inventories (IPSAS 12) as a result of the IPSASB's Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12)
- IPSASB amendments: To align terminology in GRAP 12 with that in IPSAS 12. The term "ammunition" in IPSAS 12 was replaced with the term "military inventories" and provides a description of what it comprises in accordance with Government Finance Statistics terminology

The effective date of the amendment is for years beginning on or after April 1, 2018.

The municipality has early adopted the amendment for the first time in the 2017/2018 annual financial statements.

The impact of the amendment is not material.

GRAP 16 (as amended 2016): Investment Property

Amendments to the Standard of GRAP on Investment Property resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IAS 40 on Investment Property (IAS 40) as a result of the IASB's amendments on Annual Improvements to IFRSs 2011 – 2013 Cycle issued in December 2013.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.
- IASB amendments: To clarify the interrelationship between the Standards of GRAP on Transfer of Functions Between Entities Not Under Common Control and Investment Property when classifying investment property or owner-occupied property.

The effective date of the amendment is for years beginning on or after April 1, 2018.

The municipality has early adopted the amendment for the first time in the 2017/2018 annual financial statements.

The impact of the amendment is not material.

GRAP 17 (as amended 2016): Property, Plant and Equipment

Amendments to the Standard of GRAP on Property, Plant and Equipment resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 17 on Property, Plant and Equipment (IPSAS 17) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015 and Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when an item of property, plant, and equipment is revalued; To clarify acceptable methods of depreciating assets; To align terminology in GRAP 17 with that in IPSAS 17. The term “specialist military equipment” in IPSAS 17 was replaced with the term “weapon systems” and provides a description of what it comprises in accordance with Government Finance Statistics terminology; and To define a bearer plant and include bearer plants within the scope of GRAP 17, while the produce growing on bearer plants will remain within the scope of GRAP 27.

The effective date of the amendment is for years beginning on or after April 1, 2018.

The municipality has early adopted the amendment for the first time in the 2017/2018 annual financial statements.

The impact of the amendment is not material.

GRAP 26 (as amended 2016): Impairment of cash-generating assets

Amendments Changes to the Standard of GRAP on Impairment of Cash Generating Assets resulted from changes made to IPSAS 26 on Impairment of Cash-Generating Assets (IPSAS 26) as a result of the IPSASB's Impairment of Revalued Assets issued in March 2016.

The most significant changes to the Standard are:

- IPSASB amendments: To update the Basis of conclusions and Comparison with IPSASs to reflect the IPSASB's recent decision on the impairment of revalued assets.

The effective date of the amendment is for years beginning on or after April 1, 2018.

The municipality has early adopted the amendment for the first time in the 2017/2018 annual financial statements.

The impact of the amendment is not material.

GRAP 27 (as amended 2016): Agriculture

The most significant changes to the Standard are:

- IPSASB amendments: To define a bearer plant and include bearer plants within the scope of GRAP 17, while the produce growing on bearer plants will remain within the scope of GRAP 27. In addition to the changes made by the IPSASB, a consequential amendment has been made to GRAP 103 on Heritage Assets. The IPSASB currently does not have a pronouncement on this topic.

The effective date of the amendment is for years beginning on or after April 1, 2018.

The municipality has early adopted the amendment for the first time in the 2017/2018 annual financial statements.

The impact of the amendment is set out in note Changes in Accounting Policy.

GRAP 31 (as amended 2016): Intangible Assets

Amendments to the Standard of GRAP on Intangible Assets resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 31 on Intangible Assets (IPSAS 31) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015.

The most significant changes to the Standard are:

- General improvements: To add the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when an item of intangible assets is revalued; and To clarify acceptable methods of depreciating assets

The effective date of the amendment is for years beginning on or after April 1, 2018.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The municipality has early adopted the amendment for the first time in the 2017/2018 annual financial statements.

The impact of the amendment is not material.

GRAP 103 (as amended 2016): Heritage Assets

Amendments to the Standard of GRAP on Heritage Assets resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from editorial changes to the original text.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets

The effective date of the amendment is for years beginning on or after April 1, 2018.

The municipality has early adopted the amendment for the first time in the 2017/2018 annual financial statements.

The impact of the amendment is not material.

2.3 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after July 1, 2018 or later periods:

IGRAP 1 (revised): Applying the Probability Test on Initial Recognition of Revenue

The amendments to this Interpretation of the Standard of GRAP clarifies that the entity should also consider other factors in assessing the probability of future economic benefits or service potential to the entity. Entities are also uncertain of the extent to which factors, other than the uncertainty about the collectability of revenue, should be considered when determining the probability of the inflow of future economic benefits or service potential on initial recognition of revenue. For example, in providing certain goods or services, or when charging non-exchange revenue, the amount of revenue charged may be reduced or otherwise modified under certain circumstances. These circumstances include, for example, where the entity grants early settlement discounts, rebates or similar reductions based on the satisfaction of certain criteria, or as a result of adjustments to revenue already recognised following the outcome of any review, appeal or objection process.

The consensus is that on initial recognition of revenue, an entity considers the revenue it is entitled to, following its obligation to collect all revenue due to it in terms of legislation or similar means. In addition, an entity considers other factors that will impact the probable inflow of future economic benefits or service potential, based on past experience and current facts and circumstances that exist on initial recognition.

A municipality applies judgement based on past experience and current facts and circumstances.

The effective date of the amendment is for years beginning on or after April 1, 2020.

The municipality expects to adopt the interpretation for the first time in the 2019/2020 annual financial statements.

The impact of the standard is not material.

GRAP 105: Transfers of functions between entities under common control

The objective of this Standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control. It requires an acquirer and a transferor that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

Maluti-A-Phofung Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

It furthermore covers Definitions, Identifying the acquirer and transferor, Determining the transfer date, Assets acquired or transferred and liabilities assumed or relinquished, Accounting by the acquirer and transferor, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after April 1, 2019.

The municipality expects to adopt the standard for the first time in the 2019/2019 annual financial statements.

The impact of this amendment is currently being assessed.

Maluti-A-Phofung Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Notes to the Annual Financial Statements

Figures in Rand

3. Investment property

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	51,413,117	-	51,413,117	51,413,117	-	51,413,117

A register containing the information required by section 63 of the Municipal Finance Management Act is not available for inspection at the registered office of the municipality. Due to assets being seized by the sheriff, there is no clear indication of which assets are with the municipality/sheriff or misplaced/stolen. No asset verification was done. A complete asset register will be available in the 2019/2020 financial year.

Restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal are as follows:

Contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements is as follows:

In the exceptional cases when the municipality has to measure investment property using the cost model in the Standard of GRAP on Property, Plant and Equipment when the municipality subsequently uses the fair value measurement, disclose the following:

- a description of the investment property,
- an explanation of why fair value cannot be determined reliably,
- if possible, the range of estimates within which fair value is highly likely to lie, and
- on disposal of investment property not carried at fair value:
 - the fact that the entity has disposed of investment property not carried at fair value,
 - the carrying amount of that investment property at the time of sale, and
 - the amount of gain or loss recognised.

Maluti-A-Phofung Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	545,382,796	-	545,382,796	545,382,796	-	545,382,796
Buildings	201,805,981	(6,759,069)	195,046,912	215,195,248	(13,389,267)	201,805,981
Infrastructure	2,057,650,829	(252,295,018)	1,805,355,811	7,477,580,488	(5,419,929,659)	2,057,650,829
Community	157,194,206	(2,790,382)	154,403,824	163,447,915	(6,253,709)	157,194,206
Asset found	6,385,521,915	(6,372,970,104)	12,551,811	69,841,214	(52,898,545)	16,942,669
Housing development fund	476,954,555	-	476,954,555	476,954,555	-	476,954,555
Total	9,824,510,282	(6,634,814,573)	3,189,695,709	8,948,402,216	(5,492,471,180)	3,455,931,036

Reconciliation of property, plant and equipment - 2018

	Opening balance	Depreciation	Total
Land	545,382,796	-	545,382,796
Buildings	201,805,981	(6,759,069)	195,046,912
Infrastructure	2,057,650,829	(252,295,018)	1,805,355,811
Community	157,194,206	(2,790,382)	154,403,824
Other assets	16,942,669	(4,390,858)	12,551,811
Work in progress	476,954,555	-	476,954,555
	3,455,931,036	(266,235,327)	3,189,695,709

Maluti-A-Phofung Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Transfers received	Depreciation	Impairment loss	Total
Land	545,382,796	-	-	-	-	-	545,382,796
Buildings	208,565,050	-	-	-	(6,759,069)	-	201,805,981
Infrastructure	2,231,599,989	-	-	79,976,688	(253,925,848)	-	2,057,650,829
Community	124,237,865	-	-	35,746,723	(2,790,382)	-	157,194,206
Other assets	19,427,228	2,021,247	-	-	(4,390,858)	(114,948)	16,942,669
Work in progress	412,101,332	184,600,496	(4,023,862)	(115,723,411)	-	-	476,954,555
	3,541,314,260	186,621,743	(4,023,862)	-	(267,866,157)	(114,948)	3,455,931,036

Pledged as security

There are currently no restrictions on property, plant and equipment as they have not been pledged as security for liabilities.

There are no restrictions on the realisability of property, plant and equipment or the remittance of revenue and proceeds of disposal.

There is no contractual obligation for the acquisition of property, plant and equipment.

Revaluations

Land, buildings and community assets are carried on the revaluation model. The revaluation will be evaluated every 4th year and will be in line with the valuation roll. The revaluation of the properties was conducted by Mr Nqole Arthur Lelesa (Reg No 4735) who is an independent professional valuer from Unit E1 Route 21 Corporate Park, Pretoria, 0157. Their valuations were encountered in terms of the MPRA Act of 2004 as a mass valuation report.

The following methods were used for the valuation of municipal properties:

Income capitalisation method.

Comparable sales method.

The effective date for the valuation was 30 June 2015.

Maluti-A-Phofung Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
4. Property, plant and equipment (continued)		
Other information		
The following assets are located on properties registered in the name of the municipality but have not been included in the fixed asset register due to the municipality not having control over these assets:		
Church	60	60
Clinic	4	4
Improvements	19	19
Police	4	4
RDP	4,651	4,651
Schools	17	17
	4,755	4,755

Due to cash flow constraints some projects were not completed, the details are as follows:

Due to cash flow constraints some projects were not completed, the details are as follows:

Map Water Scheme Sterkfontein_(Dwaf)	2	87,962,311
Harrismith Waste Water Treatment Works	2	50,727,064
Makholokweng Sewer	2	20,373,047
Kestell/Tlholong Water Total Solution	2	16,044,659
Makholokweng Reservoir	2	14,880,865
Intabazwe Sports	2	-
	12	189,987,946

Reconciliation of Work-in-Progress 2018

	Included within Infrastructure	Included within Community	Total
Opening balance	359,421,759	52,679,572	412,101,331
Additions/capital expenditure	139,436,254	45,164,243	184,600,497
Other movements	-	(4,023,862)	(4,023,862)
Transferred to completed items	(79,976,688)	(35,746,723)	(115,723,411)
	418,881,325	58,073,230	476,954,555

Reconciliation of Work-in-Progress 2017

	Included within Infrastructure	Included within Community	Total
Opening balance	359,421,759	52,679,572	412,101,331
Additions/capital expenditure	139,436,254	45,164,243	184,600,497
Other movements	-	(4,023,862)	(4,023,862)
Transferred to completed items	(79,976,688)	(35,746,723)	(115,723,411)
	418,881,325	58,073,230	476,954,555

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment is disclosed under Note - 38.

A register containing the information required by section 63 of the Municipal Finance Management Act is not available for inspection at the registered office of the municipality. Due to assets being seized by the sheriff, there is no clear indication of which assets are with the municipality/sheriff or misplaced/stolen. No asset verification was done. A complete asset register will be available in the 2019/2020 financial year.

Maluti-A-Phofung Local Municipality

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4. Property, plant and equipment (continued)

Deemed cost

Aggregate of items valued using deemed cost-other assets	32,758,831	32,758,831
Aggregate of items valued using deemed cost -infrastructure	6,666,499,386	6,666,499,386

Deemed cost for infrastructure and other assets was determined using the depreciated replacement cost.

5. Intangible assets

	2018			2017		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	1,531,623	-	1,531,623	6,743,027	(4,717,746)	2,025,281

Reconciliation of intangible assets - 2018

	Opening balance	Amortisation	Total
Computer software, other	2,025,281	(493,658)	1,531,623

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Amortisation	Total
Computer software, other	1,278,957	1,239,982	(493,658)	2,025,281

Pledged as security

There are no restrictions on intangible assets as they have not been pledged as security for liabilities.

There are no restrictions on the reliability of intangible assets or the remittance of revenue and proceeds of disposal.

There is no contractual obligation for the acquisition of intangible assets.

A register containing the information required by section 63 of the Municipal Finance Management Act is not available for inspection at the registered office of the municipality. Due to assets being seized by the sheriff, there is no clear indication of which assets are with the municipality/sheriff or misplaced/stolen. No asset verification was done. A complete asset register will be available in the 2019/2020 financial year.

6. Investments in controlled entities

Name of company	Held by	% holding 2018	% holding 2017	Carrying amount 2018	Carrying amount 2017
Maluti-a-Phofung Water SOC Ltd	Maluti-a-Phofung Local Municipality	100.00 %	100.00 %	300	300

The carrying amounts of controlled entities are shown net of impairment losses.

7. Other financial assets

Designated at fair value

Sanlam shares	415,946	384,005
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Maluti-A-Phofung Local Municipality

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Figures in Rand	2018	2017
7. Other financial assets (continued)		
Sanlam life policy	490,640	454,791
	906,586	838,796
Non-current assets		
Designated at fair value	906,586	838,796

Financial assets at fair value

Fair value hierarchy of financial assets at fair value

For financial assets recognised at fair value, disclosure is required of a fair value hierarchy which reflects the significance of the inputs used to make the measurements. The fair value hierarchy have the following levels:

Level 1 represents those assets which are measured using unadjusted quoted prices in active markets for identical assets.

Level 2 applies inputs other than quoted prices that are observable for the assets either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 applies inputs which are not based on observable market data.

Level 1

Listed shares	415,946	384,005
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Level 2

Sanlam life policy	490,640	454,791
	906,586	838,796

8. Employee benefit obligations

Defined benefit plan

Long service employee benefit plan

According to the rules of the long service awards scheme which the municipality instituted and operates, an employee (who is on the current condition service) is entitled to a cash allowance calculated in terms of the rules of the scheme after 10, 15, 20, 25 and 30 years of continued service. The liability was calculated by ZAQ Consultants and Actuaries.

It is management's best estimate that the current portion of the liability is the contributions expected to be paid on the plans for the following annual financial period.

Post retirement medical aid plan

Actuarial valuation on post-employment medical aid benefit was performed by ZAQ Consultants and Actuaries. The valuation considered all in service employee, retired employees and their dependants who participate in the medical aid arrangements and are entitled to a post-employment medical aid subsidy.

It is management's best estimate that the current portion of the liability is the contributions expected to be paid on the plans for the following annual financial period.

The plan is a post-employment medical benefit plan.

Maluti-A-Phofung Local Municipality

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Figures in Rand	2018	2017
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8. Employee benefit obligations (continued)

The amounts recognised in the statement of financial position are as follows:

Carrying value

Present value of long service liability	(20,115,000)	(20,115,000)
Present value of post employment medical aid liability	(10,106,000)	(10,256,000)
	(30,221,000)	(30,371,000)
Non-current liabilities	(30,221,000)	(27,733,000)
Current liabilities	-	(2,638,000)
	(30,221,000)	(30,371,000)

As at the valuation date, the long service award liability of the Municipality was unfunded, i.e no dedicated assets have been set aside to meet this liability. We therefore did not value any assets as part of our valuation

Changes in the present value of long service liability are as follows:

Opening balance	20,115,000	19,306,000
Benefits paid	(2,740,000)	(2,740,000)
Net expense recognised in the statement of financial performance	3,549,000	3,549,000
	20,924,000	20,115,000

Net expense of the long service liability recognised in the statement of financial performance:

Current service cost	2,298,000	2,298,000
Interest cost	1,930,000	1,930,000
Actuarial gains	(679,000)	(679,000)
	3,549,000	3,549,000

Changes in the present value of the post-employment medical aid liability are as follows:

Opening balance	10,256,000	12,249,000
Benefits paid	(749,000)	(749,000)
Net expense recognised in the statement of financial performance	(1,244,000)	(1,244,000)
	8,263,000	10,256,000

Net expense of post-employment medical aid liability recognised in the statement of financial performance

Current service cost	70,000	70,000
Interest cost	1,182,000	1,182,000
Actuarial gains	(2,496,000)	(2,496,000)
	(1,244,000)	(1,244,000)

The net expense for long service awards and post-employment benefits has been disclosed in the statement of financial performance as follows.

Statement of financial performance

Employee related costs	(807,000)	(807,000)
Finance costs	3,112,000	3,112,000
	2,305,000	2,305,000

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8. Employee benefit obligations (continued)

Key assumptions used

Expected rate of salary increases was set as assumed value of CPI plus 1%. Salaries used in the valuation include an assumed increase on 1 July 2017 of 7.36%.

Medical aid inflation was calculated after the presumption that medical aid contribution increases would outstrip general inflation by 1% per annum over the foreseeable future.

Other assumptions

Spouses and dependants:

The marital status of members that are currently married: To remain the same until retirement.
Single employees: 90% would be married at retirement with no dependant children.
Female employees will be five years younger than their male spouses at retirement and vice versa.

Deviations from the assumed level of mortality experience of the current employees and continuation members (pension) will have an significant impact on the actual cost to the municipality.

Long service liability

A 20% increase/decrease in the assumed level of withdrawal rates will have an effect as indicated below.
A 1% increase/decrease in the normal salary cost inflation will have effect as indicated below.

Post-employment medical aid benefits

A 20% increase/decrease in the assumed level of mortality will have an effect as indicated below.
A 1% increase/decrease in the medical aid inflation will have an effect as indicated below.

Amounts for the current and previous four years are as follows:

	2018 R	2017 R	2016 R	2015 R	2014 R
Post-employment medical aid benefit	10,106,000	10,256,000	12,249,000	11,895,000	12,290,000
Long service award	20,115,000	20,115,000	19,306,000	17,135,000	18,322,000

Key assumptions

Discount rate	Yield curve	Yield curve
Consumer price inflation	Difference between nominal and real yield curve	Difference between nominal and real yield curve
Medical aid contribution inflation/ Normal salary increase rate	CPI + 1%	CPI +1
Net effective discount rate	Yield curve based	Yield curve based

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9. Inventories		
Consumable stores	2,123,349	2,170,002
Unsold Properties Held for Resale	3,605,000	3,605,000
	5,728,349	5,775,002
Inventories (write-downs)	(337)	-
	5,728,012	5,775,002

Inventories recognised as an expense during the year	623,823	1,236,797
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Inventory pledged as security

None of the inventories were pledged as security during the period under review.

10. Receivables from exchange transactions

Deposits	3,402,495	2,994,998
Receivable from exchange transactions	17,441,983	5,414,239
Consumer debtors - Electricity	137,184,320	86,316,043
Consumer debtors - Water	166,871,707	127,812,970
Consumer debtors - Sewerage	61,744,680	55,777,255
Consumer debtors - Refuse	59,859,979	55,943,159
Consumer debtors - sundry	64,972,752	18,157,898
	511,477,916	352,416,562

Trade and other receivables pledged as security

None of the receivable from exchange transactions were pladged as security.

Credit quality of trade and other receivables

Other receivables from exchange transactions were neither past due nor impaired.

None of the receivables that are fully performing have been renegotiated in the last financial year.

Trade and other receivables impaired

As of June 30, 2018, trade and other receivables of R - (2017: R -) were impaired and provided for.

The amount of the provision was R (497,937,477) as of June 30, 2018 (2017: R (428,790,593)).

The ageing of these loans is as follows:

11. Receivables from non-exchange transactions

Fines	45,066,313	46,145,560
Government grants and subsidies	962,747	962,747
Other receivables from non-exchange revenue	106,546	101,546
Consumer debtors - Rates	39,471,002	47,131,894
	85,606,608	94,341,747

Fines

Gross balance	50,773,020	54,437,188
Less: Allowance for impairment	(46,970,359)	(49,555,280)
	3,802,661	4,881,908

Maluti-A-Phofung Local Municipality

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Figures in Rand	2018	2017
11. Receivables from non-exchange transactions (continued)		
Receivables from non-exchange transactions past due but not impaired		
At June 30, 2018, R 3,984,293 (2017: R 973,293) were past due but not impaired.		
The ageing of amounts past due but not impaired is as follows:		
1 month past due	-	432,616
2 months past due	-	540,677
3 months past due	3,984,293	-
12. VAT receivable		
VAT	258,791,842	165,172,569
13. Consumer debtors disclosure		
Gross balances		
Consumer debtors - Rates	331,758,386	269,542,564
Consumer debtors - Electricity	244,338,223	163,461,885
Consumer debtors - Water	374,627,044	305,976,180
Consumer debtors - Sewerage	145,025,927	126,051,750
Consumer debtors - Refuse	145,228,635	127,166,909
Consumer debtors - Sundry receivables	79,351,086	50,141,194
	1,320,329,301	1,042,340,482
Less: Allowance for impairment		
Consumer debtors - Rates	(292,287,384)	(222,410,670)
Consumer debtors - Electricity	(107,153,903)	(77,145,842)
Consumer debtors - Water	(207,755,337)	(178,163,210)
Consumer debtors - Sewerage	(83,281,247)	(70,274,495)
Consumer debtors - Refuse	(85,368,656)	(71,223,750)
Consumer debtors - Sundry receivables	(14,378,334)	(31,983,296)
Sundry receivables - amount for long term receivables - non-current	5,258,537	5,258,537
Sundry receivables - amount for long term receivables - current	1,864,328	1,864,328
	(783,101,996)	(644,078,398)
Net balance		
Consumer debtors - Rates	39,471,002	47,131,894
Consumer debtors - Electricity	137,184,320	86,316,043
Consumer debtors - Water	166,871,707	127,812,970
Consumer debtors - Sewerage	61,744,680	55,777,255
Consumer debtors - Refuse	59,859,979	55,943,159
Consumer debtors - Sundry receivables	64,972,752	18,157,898
	530,104,440	391,139,219
Rates		
Current (0 -30 days)	17,188,062	17,188,062
31 - 60 days	1,048,199	1,048,199
61 - 90 days	119,780	119,780
91 - 120 days	21,114,961	28,775,853
	39,471,002	47,131,894

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Notes to the Annual Financial Statements

Figures in Rand	2018	2017
13. Consumer debtors disclosure (continued)		
Electricity		
Current (0 -30 days)	27,196,965	27,196,965
31 - 60 days	2,382,184	2,382,184
61 - 90 days	3,934,995	3,934,995
91 - 120 days	41,434,103	41,434,103
121 - 365 days	62,236,073	11,367,796
	137,184,320	86,316,043
Water		
Current (0 -30 days)	13,511,599	13,511,599
31 - 60 days	3,358,068	3,358,068
61 - 90 days	2,432,483	2,432,483
91 - 120 days	147,569,557	108,510,820
	166,871,707	127,812,970
Sewerage		
Current (0 -30 days)	6,457,976	6,457,976
31 - 60 days	1,357,209	1,357,209
61 - 90 days	1,268,894	1,268,894
91 - 120 days	52,660,601	46,693,176
	61,744,680	55,777,255
Refuse		
Current (0 -30 days)	5,763,748	5,763,748
31 - 60 days	1,222,965	1,222,965
61 - 90 days	1,192,171	1,192,171
91 - 120 days	51,681,095	47,764,275
	59,859,979	55,943,159
Sundries		
Current (0 -30 days)	465,027	465,027
31 - 60 days	84,026	84,026
61 - 90 days	111,244	111,244
91 - 120 days	17,497,601	17,497,601
121 - 365 days	46,814,854	-
	64,972,752	18,157,898

Maluti-A-Phofung Local Municipality

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Figures in Rand	2018	2017
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13. Consumer debtors disclosure (continued)

Summary of debtors by customer classification

Section 21 Schools

Total service debt	38,475,416	38,475,416
	38,475,416	38,475,416
Less: Allowance for impairment	(32,016,255)	(32,016,255)
	6,459,161	6,459,161

Industrial/ commercial

Total service debt	115,826,703	115,826,703
	115,826,703	115,826,703
Less: Allowance for impairment	(106,869,639)	(106,869,639)
	8,957,064	8,957,064

National and provincial government

Total service debt	131,350,951	131,350,951
	131,350,951	131,350,951
Less: Allowance for impairment	(93,750,288)	(93,750,288)
	37,600,663	37,600,663

Reconciliation of allowance for impairment

Reconciliation of allowance for impairment

Balance at beginning of the year	644,078,398	695,500,852
Movement in allowance for impairment	139,023,598	(51,422,454)
	783,101,996	644,078,398

14. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	2,361	2,300
Bank balances	2,178,441	31,623,202
Short-term deposits	2,170,696	2,314,608
Other cash and cash equivalents	3,000,271	3,235,134
	7,351,769	37,175,244

Cash and cash equivalents loss

Cash stolen	-	105,642
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A robbery occurred on the 2nd of September 2016 at the main office of Maluti-a-Phofung. Out of the R105 642, the amount of R39 265 consisted of cheques which was cancelled before it was cashed.

Petty cash missing	5,000	-
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A cheque of R5000.00 was cashed on the 04 October 2017 for Petty cash. There is no reconciliation of supporting invoices, to support expenses occurred for the R5000.00 cashed.

Maluti-A-Phofung Local Municipality

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Figures in Rand 2018 2017

14. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2018	June 30, 2017	June 30, 2016
First National Bank - current	3,755,892	1,091,479	2,841,207	3,507,372	3,564,995	2,847,280
First National Bank - savings	3,000,271	3,235,134	3,221,604	3,000,271	3,235,134	3,221,604
First National Bank - call account	32,643	1,147	1,000	32,643	1,147	1,000
First National Bank - Jazz fund	38,217	3,699	1,038	38,217	3,699	1,038
First National Bank - MIG fund	1,026	39,473	1,030	1,026	39,473	1,030
First National Bank - FNB Intabazwe	47,228	357,459	104,415	47,228	357,459	104,415
Standard Bank - Call deposit	83,760	81,049	78,265	83,760	81,049	78,265
Standard Bank - Money Market	1,967,821	1,831,781	1,699,890	1,967,821	1,831,781	1,688,890
Total	8,926,858	6,641,221	7,948,449	8,678,338	9,114,737	7,943,522

15. Revaluation reserve

Opening balance 276,825,208 276,825,208

16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Water Services Infrastructure grant	38,047,023	7,309,703
Municipal infrastructure grant	37,223,388	-
Integrated National Electrification Programme grant	5,000,000	-
	80,270,411	7,309,703

Movement during the year

Balance at the beginning of the year	7,309,703	3,678,204
Additions during the year	194,320,000	184,172,998
Income recognition during the year	(121,359,292)	(180,541,499)
	80,270,411	7,309,703

See note 28 for reconciliation of grants from National/Provincial Government.

17. Other financial liabilities

At amortised cost		
Annuity loan	7,572,886	9,273,226

All annuity loans are from the Development Bank of South Africa and repayments are made on a six monthly basis.

The average interest rate amounts to 14.42% per annum and the last loan is redeemable at 31 December 2032.

The municipality defaulted on principal and interest repayments during the period under review. No terms were renegotiated before the financial statements were authorised for issue.

Non-current liabilities		
At amortised cost	4,542,653	6,258,831

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Figures in Rand	2018	2017
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17. Other financial liabilities (continued)

Current liabilities

At amortised cost	3,030,233	3,014,395
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Defaults and breaches

The municipality did default on repayments during the period for loans repayable. No terms were renegotiated before the financial statements were authorised for issue. The closing balance amounts R7 572 886 (2017: R 9273226). The interest on the arrears account amounts to R3 036 703.46 (2017:1 970574).

18. Provisions

Reconciliation of provisions - 2018

	Opening Balance	Total
Environmental rehabilitation	38,252,641	38,252,641

Reconciliation of provisions - 2017

	Opening Balance	Additions	Unwinding of interest	Total
Environmental rehabilitation	34,394,596	1,274,353	2,583,692	38,252,641

Environmental rehabilitation provision

The rehabilitation cost provision is for the rehabilitation program of the landfill sites of the municipality. It is required from the municipality to execute an environmental management program to restore the landfill site after its useful life. The sites under construction are Harrismith and Phuthaditjaba. Both landfill sites accept only general waste.

The Harrismith landfill has been permitted for operation in terms Section 20 of the Environment Conservation Act, 1989 (ECA) and the QwaQwa landfill has been licensed for closure and rehabilitation in terms of the National Environment Management: Waste Act, 2008 (NEMWA).

In order to determine the rehabilitation costs of each site the minimum requirements issued by the Department of Water Affairs (DWA) was used as guideline for the design of the capping layer as well as the capacity of the storm water drainage system. If a site is permitted / licensed, the relevant rehabilitation requirements are obtained from the above documentation according to the site's classification or as required in each permit. If a site is unpermitted/unlicensed, the classification is assumed according to the volume of the waste received per day at the site, the type of waste received and the climatic region in which the site is located, i.e the factors that determine the classification of the licensed site.

The actual costs are determined by calculating the volumes of excavations, materials, required and legal requirements according to the footprint of each individual site. For a new estimate the rates used for each item of work is based on current rates for similar activities. If a previous estimate was done for a specific site then the previous years figures are escalated using CPI. The individual rates are then again cross checked to determine if they are still with the current rates for similar activities and adjusted accordingly.

Provision has been made for this cost based on the estimated present value of future cash flows arising from the rehabilitation cost expected as at 30 June 2018 for the Phuthaditjaba Landfill site and 30 June 2024 for the Harrismith landfill site.

Maluti-A-Phofung Local Municipality

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Figures in Rand	2018	2017
19. Payables from exchange transactions		
Maluti-a-Phofung Water payable	115,526,662	115,526,661
Accrued leave pay	28,726,601	28,726,601
Accrued bonus	7,140,103	7,140,103
Deposits received	32,378	22,459
Trade payable	3,598,087,235	2,485,796,612
Payments received in advance	52,480,421	38,676,084
Other payables	5,330,655	3,003,626
	3,807,324,055	2,678,892,146

20. Consumer deposits

Electricity and water	12,259,360	12,111,280
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No interest accrues on the balance of consumer deposits held by the municipality.

21. Revenue

Service charges	436,963,657	402,955,086
Rental of facilities and equipment	1,019,848	1,142,043
Interest received (trading)	-	19,665,116
Recoveries	(901,779)	-
Other income - (rollup)	12,502,017	19,121,932
Interest received - investment	3,461,475	2,303,804
Traffic fines	53,411,659	60,417,332
Property rates	174,215,504	151,220,692
Property rates - penalties imposed	51	11,849,379
Government grants & subsidies	610,988,292	635,117,297
Public contributions and donations	-	223,894
	1,291,660,724	1,304,016,575

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	436,963,657	402,955,086
Rental of facilities and equipment	1,019,848	1,142,043
Interest received (trading)	-	19,665,116
Recoveries	(901,779)	-
Other income - (rollup)	12,502,017	19,121,932
Interest received - investment	3,461,475	2,303,804
	453,045,218	445,187,981

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue

Traffic fines	53,411,659	60,417,332
Property rates	174,215,504	151,220,692
Property rates - penalties imposed	51	11,849,379

Transfer revenue

Government grants & subsidies	610,988,292	635,117,297
Public contributions and donations	-	223,894
	838,615,506	858,828,594

Maluti-A-Phofung Local Municipality

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Figures in Rand	2018	2017
22. Service charges		
Sale of electricity	297,525,904	283,358,414
Sale of water	69,980,014	49,331,322
Sewerage and sanitation charges	39,876,577	36,844,712
Refuse removal	29,581,162	33,420,638
	436,963,657	402,955,086

23. Rental of facilities and equipment

Premises

Premises	754,899	704,892
Theatre hire	264,949	437,151
	1,019,848	1,142,043

All lease agreements are within a period of less than one year. No contingent rent is receivable.

24. Other revenue

Salary recoveries	(901,779)	-
Other income - (rollup)	12,502,017	19,121,932
	11,600,238	19,121,932

Other income composition detailed under 27.

25. Other income

Accompanying vehicles	35,583	69,384
Advertising	71,244	79,495
Building plan fees	256,554	162,335
Call out fees	207,343	291,846
Cemetery fees	439,024	358,320
Clearance certificate	40,552	88,069
Commission received	15,556	28,553
Connection and reconnection fees	319,332	1,314,389
Conservancy services	16,346	582,956
Container rental	4,721	1,975
Encroachment fees	1,934	2,831
Festival donations and sponsorship	5,290,000	7,913,004
Identification of pegs	11,132	10,965
Insurance claims	37,780	406,773
Medical aid income	11,357	15,229
Other income (library fees, notice fees, licences and other income)	14,414	39,284
Photo copies	6,000	3,754
Pound and storage fees	438,311	446,850
Sale of erven	26,260	36,402
Sale of tender	532,847	349,454
Telephone income	-	10,721
Unclaimed deposits and stale cheques	4,655,626	6,799,196
Valuation objection	70,101	110,147
	12,502,017	19,121,932

Maluti-A-Phofung Local Municipality

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Figures in Rand	2018	2017
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26. Property rates

Rates received

Commercial and residential	58,100,297	56,983,673
National and provincial government	116,115,207	94,237,019
	174,215,504	151,220,692
Property rates - penalties imposed	51	11,849,379
	174,215,555	163,070,071

Valuations

Residential	4,267,966,976	4,267,966,976
Commercial	3,951,405,607	3,951,405,607
National and provincial government	1,772,047,468	1,772,047,468
Municipal	2,229,414,486	2,229,414,486
	12,220,834,537	12,220,834,537

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2015. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The current year decrease in the value of properties in the valuation roll was due to the objections raised by different property owners. Individual valuations on these properties were conducted by the appointed sworn valuers. Differences between the initial and second valuation including the reasons for reassessment of valuations from property owners were presented before and approved by the Valuation roll objection appeal board which was appointed by COGTA.

The income foregone included in the different property rates relates to all residential properties that are exempted from paying property rates including, discounts given to pensioners and also incentives given to debtors settling their accounts in terms of the debt collection and credit control policy.

27. Grants and subsidies paid

Other subsidies

Equitable share to Maluti-a-Phofung Water (SOC) Ltd	115,540,000	109,000,000
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Maluti-A-Phofung Local Municipality

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28. Government grants and subsidies

Operating grants

Equitable share	493,768,000	458,097,000
Financial Management grant	2,145,000	1,810,000
	495,913,000	459,907,000

Capital grants

Extended Public Works Programme Incentive grant	5,219,000	7,650,000
Water Services Infrastructure grant	6,347,680	12,690,297
Municipal Infrastructure grant	103,508,612	154,870,000
	115,075,292	175,210,297
	610,988,292	635,117,297

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	115,811,601	177,020,297
Unconditional grants received	493,768,000	458,097,000
	609,579,601	635,117,297

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Financial Management grant

Current-year receipts	2,145,000	1,810,000
Conditions met - transferred to revenue	(2,145,000)	(1,810,000)
	-	-

Conditions still to be met - remain liabilities (see note 16).

In terms of the Constitution, this grant is used to assist in support and implementation of financial management reforms, attendance at accredited training and capacity building programmes on financial management.

Rural Household Infrastructure grant

Balance unspent at beginning of year	-	112,912
Other transfer (deduction from equitable share)	-	(112,912)
	-	-

Conditions still to be met - remain liabilities (see note 16).

In terms of the constitution, this grant is used to improve access to basic water and sanitation in rural areas.

Municipal Infrastructure grant

Balance unspent at beginning of year	-	2,372,806
Current-year receipts	140,732,000	154,870,000
Conditions met - transferred to revenue	(103,508,612)	(154,870,000)
Other transfer (deduction from equitable share)	-	(2,372,806)
	37,223,388	-

Maluti-A-Phofung Local Municipality

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28. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 16).

In terms of the Constitution, this grant is used to provide specific capital finance for basic municipal infrastructure backlogs for poor households, micro enterprises and social institutions servicing poor communities.

Extended Public Works Programme Incentive grant

Current-year receipts	5,219,000	7,650,000
Conditions met - transferred to revenue	(5,219,000)	(7,650,000)
	-	-

Conditions still to be met - remain liabilities (see note 16).

In terms of the Constitution, this grant is used to expand job creation efforts in specific focus areas, where labour intensive delivery methods can be maximised.

Water Services Infrastructure grant

Balance unspent at beginning of year	7,309,703	-
Current-year receipts	40,000,000	20,000,000
Conditions met - transferred to revenue	(6,347,680)	(12,690,297)
Other transfer (deduction from equitable share)	(2,915,000)	-
	38,047,023	7,309,703

Conditions still to be met - remain liabilities (see note 16).

In terms of the Constitution, this grant is used to facilitate the planning and implementation of various water and on-site sanitation projects to accelerate backlog reduction and enhance the sustainability of services especially in rural municipalities; provide interim, intermediate water and sanitation supply that ensures provision of services to identified and prioritised communities, including through spring protection and groundwater development; support municipalities in implementing Water Conservation and Water Demand Management projects; support the existing bucket eradication programme intervention in formal residential areas; support drought relief projects in affected municipalities.

Integrated National Electrification Programme

Balance unspent at beginning of year	-	1,192,486
Current-year receipts	5,000,000	-
Other transfer (deduction from equitable share)	-	(1,192,486)
	5,000,000	-

Conditions still to be met - remain liabilities (see note 16).

In terms of the Constitution, this grant is used to address the electrification backlog of occupied residential dwellings, clinics and the installation of bulk infrastructure and rehabilitation and refurbishment of electricity infrastructure in order to improve quality of supply.

Maluti-A-Phofung Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
29. Employee related costs		
Acting allowances	5,479,119	5,019,499
Bargaining council contribution	90,972	108,231
Basic	251,768,805	200,240,321
Bonus	12,994,898	12,960,813
Car allowance	6,672,905	6,197,070
Defined contribution plans	33,188,717	33,920,765
Group life Insurance	1,345,116	1,946,370
Housing benefits and allowances	1,400,311	1,552,353
Leave pay provision charge	5,577,739	7,596,511
Long-service awards	172,861	440,004
Long-term benefits - incentive scheme	1,804,947	2,077,024
Medical aid - company contributions	13,630,297	13,894,802
Overtime payments	27,290,103	35,957,950
Skills development levy	3,305,787	5,255,917
Standby allowance	1,728,597	1,888,670
Telephone / Cellphone allowance	834,729	736,812
Unemployment insurance fund contribution	2,469,217	2,286,729
Workmen's compensation	120,000	1,245,443
	369,875,120	333,325,284

Remuneration of Municipal Manager

Annual Remuneration	732,260	1,708,486
Cellphone allowance	4,000	24,000
Contributions to UIF, Medical and Pension Funds	8,106	24,525
Performance bonus	-	235,164
Skills development levy	7,441	17,552
	751,807	2,009,727

Remuneration of Acting Municipal Manager

Acting allowance	141,571	-
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ADV MR Tsupa was Municipal Manager for the period July 2017 to September 2017.

Mr MS Nyembe was acting Municipal Manager for the period August 2017 to November 2017.

The remuneration of the staff is within the upper limits of the SALGA Bargaining Council determinations.

Remuneration of Acting Chief Financial Officer

Travel allowance	-	54,455
Cellphone allowance	5,500	6,500
Contributions to UIF, Medical and Pension Funds	-	744
Acting allowance	147,319	73,358
Skills development levy	-	3,654
	152,819	138,711

Remuneration of Former Chief Financial Officer

Annual remuneration	1,189,087	645,533
Travel allowance	180,000	105,000
Cellphone allowance	18,000	10,500
Skills development levy	13,717	7,400
Contributions to UIF, Medical and Pension Funds	1,785	1,041
	1,402,589	769,474

Maluti-A-Phofung Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
29. Employee related costs (continued)		
Remuneration of Acting Chief Financial Officer		
Acting allowance	205,069	-
Cellphone allowance	8,000	-
	213,069	-

Mr NN Molefe was acting Chief Financial Officer for the period July 2017 to November 2019.

Mr MA Mofokeng was Chief Financial Officer for the period July 2017 to January 2017 and was seconded to MAP Water from February 2017 to June 2018.

Mrs NP Khumalo was acting Chief Financial Officer for the period December 2017 to June 2018.

The remuneration of the staff is within the upper limits of the SALGA Bargaining Council determinations.

Remuneration of Director of Municipal Infrastructure

Annual Remuneration	-	389,442
Acting allowance	-	119,074
Skills development levy	-	4,888
Contributions to UIF, Medical and Pension Funds	-	66,744
Other	-	92
Cellphone allowance	-	9,000
	-	589,240

Remuneration of Acting Director of Municipal Infrastructure

Acting allowance	77,905	-
Cellphone allowance	6,000	-
	83,905	-

Remuneration of Acting Director of Municipal Infrastructure

Acting allowance	56,146	-
Cellphone allowance	1,000	-
	57,146	-

Mr RE Moletsane was acting Director of Municipal Infrastructure for the period May 2017 to June 2017.

Mrs NJ Mosokotso was acting Director of Municipal Infrastructure for the period July 2017 to September 2019.

The remuneration of the staff is within the upper limits of the SALGA Bargaining Council determinations.

Remuneration of Director of Local Economic Development and Tourism

Annual Remuneration	861,705	798,238
Travel allowance	126,352	216,604
Cellphone allowance	10,500	18,000
Contributions to UIF, Medical and Pension Funds	101,860	160,087
Skills development levy	6,188	9,576
	1,106,605	1,202,505

Mr FP Mothamaha was Director of Local Economic Development and Tourism for the period July 2017 to January 2018.

The remuneration of the staff is within the upper limits of the SALGA Bargaining Council determinations

Remuneration of Director of Public Safety

Annual Remuneration	833,288	833,626
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Figures in Rand	2018	2017
29. Employee related costs (continued)		
Travel allowance	199,805	199,805
Cellphone allowance	18,000	18,000
Contributions to UIF, Medical and Pension Funds	188,089	186,981
Skills development levy	15,828	9,961
	1,255,010	1,248,373

Mr MW Matjele was a Director of Public Safety for the period ended July 2017 to June 2018.

The remuneration of the staff is within the upper limits of the SALGA Bargaining Council determinations.

Remuneration of Director of Corporate Services

Annual Remuneration	884,949	842,917
Travel allowance	129,662	129,662
Cellphone allowance	18,000	18,000
Contributions to UIF, Medical and Pension Funds	25,131	34,217
Skills development levy	10,300	9,971
	1,068,042	1,034,767

Remuneration of Acting Director of Corporate Services

Acting allowance	79,399	-
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Ms MS Sekhonyana was a Director of Corporate Services for the period ended July 2017 to June 2018.

Mr LS Motloun was acting Director of Corporate Services for the period ended July 2017 to January 2018.

The remuneration of the staff is within the upper limits of the SALGA Bargaining Council determinations.

Remuneration of Director of Parks, Sport, Recreation, Arts and Culture

Annual Remuneration	864,153	609,549
Travel allowance	-	130,662
Cellphone allowance	15,000	16,000
Contributions to UIF, Medical and Pension Funds	28,637	134,903
NFMW Group	-	9,592
Skills development levy	10,054	8,013
Other	-	92
	917,844	908,811

Mr MI Mokoena was a Director of Parks, Sport, Recreation, Arts & Culture for the period December 2017 to June 2018.

The remuneration of the staff is within the upper limits of the SALGA Bargaining Council determinations.

Remuneration of Directors of Community Service

Annual Remuneration	-	948,133
Travel allowance	-	129,985
Cellphone allowance	-	13,500
Contributions to UIF, Medical and Pension Funds	-	113,446
Skills development levy	-	10,160
	-	1,215,224

Remuneration of Acting Director of Community Services

Acting allowance	108,698	-
Cellphone allowance	6,000	-
	114,698	-

Maluti-A-Phofung Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2018	2017
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29. Employee related costs (continued)

Remuneration of Acting Director of Community Services

Acting allowance	20,324	-
Cellphone allowance	1,000	-
	21,324	-

Ms Sekhobo AE were acting Director of Corporate Services for the period July 2017.

Ms Sekhobo AE were acting Director of Corporate Services for the period August 2017 to October 2017.

The remuneration of the staff is within the upper limits of the SALGA Bargaining Council determinations.

Remuneration of the Director of Human Settlements/ Housing

Annual Remuneration	529,189	726,223
Travel allowance	60,000	131,274
Cellphone allowance	12,500	14,000
Contributions to UIF, Medical and Pension Funds	14,787	126,280
Skills development levy	9,223	9,592
Other	-	8,351
Other	-	92
	625,699	1,015,812

30. Remuneration of councilors

Executive Major	805,910	827,166
Mayoral Committee Members	7,879,117	7,278,963
Speaker	655,690	653,017
Councilors	16,506,891	15,132,805
	25,847,608	23,891,951

In-kind benefits

The Executive Mayor, Deputy Executive Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Mayor and the Deputy Mayor each have the use of separate Council owned vehicles for official duties.

The Mayor has three full-time bodyguards. The Deputy Mayor and speaker have two full-time bodyguards.

Maluti-A-Phofung Local Municipality

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Figures in Rand	2018	2017
30. Remuneration of councilors (continued)		
Executive Mayor		
Annual remuneration	764,546	775,900
Contributions to UIF, medical and pension funds	7,664	24,815
Data allowance	3,300	3,600
Cellular phone allowance	30,400	22,851
	805,910	827,166
Speaker		
Annual remuneration	457,681	436,178
Travel, accommodation, subsistence and other allowances	154,788	157,412
Contributions to UIF, medical and pension funds	5,821	32,976
Data allowance	3,600	3,600
Cellular phone allowance	33,800	22,851
Subtotal	655,690	653,017
	655,690	653,017
Mayoral Committee Member		
Annual remuneration	6,763,258	6,344,091
Travel, accommodation, subsistence and other allowances	516,509	456,432
Contributions to UIF, medical and pension funds	207,950	43,186
Data allowance	41,100	230,053
Cellular phone allowance	350,300	205,201
	7,879,117	7,278,963
Councilors		
Annual remuneration	13,452,995	12,944,315
Travel, accommodation, subsistence and other allowances	841,538	652,616
Contributions to UIF, medical and pension funds	448,457	394,506
Data allowance	189,900	197,314
Cellular phone allowance	1,574,000	944,054
Subtotal	16,506,890	15,132,805
	16,506,890	15,132,805
31. Management fees		
Water, sewerage and sanitation management fees	99,724,093	27,520,834
32. Depreciation and amortisation		
Property, plant and equipment	266,235,327	267,866,157
Intangible assets	493,658	493,658
	266,728,985	268,359,815
33. Impairment of assets		
Impairments		
Property, plant and equipment	-	114,948

Maluti-A-Phofung Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2018	2017
34. Finance costs		
Non-current borrowings	761,835	22,139,552
Bank	379,377	2,454,871
	1,141,212	24,594,423
35. Debt impairment		
Contributions to debt impairment provision	44,854,242	(44,299,589)
Bad debts written off	121,950,525	107,511,793
	166,804,767	63,212,204
36. Bulk purchases		
Electricity - Eskom	610,927,228	594,330,372
Electricity losses		
Units purchased	614,297,262	516,145,016
Units sold	(192,516,027)	(208,234,349)
Total loss	421,781,235	307,910,667
Percentage Loss:		
Technical losses	68 %	60 %
Water losses		
Units purchased	21,564,499	20,343,867
Units sold	(8,876,764)	(8,374,306)
Total	12,687,735	11,969,561
Percentage Loss:		
Technical losses	60 %	59 %
37. Contracted services		
Presented previously		
Information Technology Services	80,428	1,249,745
Fleet Services	16,500	14,707,235
Operating Leases	12,128,589	7,804,140
Specialist Services	7,688,183	31,824,380
Other Contractors	31,208,105	38,871,942

Maluti-A-Phofung Local Municipality

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Figures in Rand	2018	2017
38. General expenses		
Repairs and maintenance	33,537,177	106,737,505
Accommodation, subsistence and other allowances	7,413,296	5,013,081
Advertising	1,593,460	2,659,091
Auditors remuneration	3,501,665	7,058,064
Bank charges	3,117,558	2,940,399
Brick making project	958,505	1,005,195
Bursaries	8,889,344	21,371,738
Commission paid	351,372,137	(28,058,207)
Consulting and professional fees	18,866,401	17,007,402
Consumables	669,843	6,120,334
Debt collection	15,834	2,997,336
Debt relief provision	(785)	6,911,205
Disaster emergency funding	570,000	10,389,614
Donations	-	4,023,862
Community development and training	49,676,698	66,611,826
Fuel and oil	2,577,564	6,275,552
General workers seasonal	-	120,915
Insurance	5,210,623	2,656,604
Levies	4,198,196	6,412,864
Magazines, books and periodicals	-	3,133
Motor vehicle expenses	393,216	458,669
Other expenses	671,108	1,800,343
Penalties and interest	321,787,453	261,861,866
Postage and courier	1,379,133	2,837,126
Promotions and sponsorship	709,595	2,181,593
Protective clothing	137,462	6,334,745
Refuse	-	2,557,197
Rehabilitation of landfill site	-	3,169,090
Security (Guarding of municipal property)	-	4,230,089
Staff interview expenses	5,027	-
Staff welfare	1,454,068	1,313,874
Subscriptions and membership fees	69,465	169,278
Telephone and fax	2,828,144	3,755,801
Training	9,564,788	14,420,276
Veterinary department	-	29,900
	831,166,975	553,377,360

Repairs and maintenance consist of the following:

Repairs and maintenance		
Building	461,782	2,385,549
Furniture and equipment	245,309	11,470,981
Infrastructure	21,420,738	38,544,648
Roads	9,668,144	53,313,709
Vehicles	1,048,202	1,022,618
Computer	909,881	-
	33,754,056	106,737,505

39. Fair value adjustments

Other financial assets		
• At fair value	67,790	62,251

Maluti-A-Phofung Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2018	2017
40. Auditors' remuneration		
Fees	3,501,665	7,058,064
41. Operating lease		
Minimum lease payments due		
- Within one year	72,407,264	72,407,264
- In second to fifth year inclusive	113,241,595	113,241,595
	185,648,859	185,648,859

Operating lease payments represent rentals of vehicles and machinery. Lease agreement is fixed until terminated by either party. There are no renewal and/or purchase options. No contingent rentals are payable.

The municipality entered into a new lease agreement with Kwane Capital (Pty) Ltd for the lease of machinery (3) for a period of 3 years during the year under review. Escalation for this lease contract is linked to CPI.

42. Cash (used in) generated from operations

Deficit	(1,252,276,525)	(798,484,501)
Adjustments for:		
Depreciation and amortisation	266,728,985	268,359,815
Fair value adjustments	(67,790)	(62,251)
Impairment loss on assets	-	114,948
Debt impairment	166,804,767	63,212,204
Movements in long service	(150,000)	(1,184,000)
Movements in landfill provision	-	3,858,045
Provision for leave and bonus	-	1,829,460
Changes in working capital:		
Inventories	46,990	(36,967)
Receivables from exchange transactions	(325,866,121)	(173,942,144)
Other receivables from non-exchange transactions	8,735,139	(78,546,600)
Payables from exchange transactions	1,128,431,908	948,912,910
VAT	(93,619,273)	(21,757,221)
Unspent conditional grants and receipts	72,960,708	3,631,499
Consumer deposits	148,080	243,808
	(28,123,132)	216,149,005

Maluti-A-Phofung Local Municipality

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Figures in Rand	2018	2017
43. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Property, plant and equipment	431,538,312	392,307,556
Total capital commitments		
Already contracted for but not provided for	431,538,312	392,307,556
Authorised operational expenditure		
Already contracted for but not provided for		
• Operating activities	79,551,748	72,319,771
Total operational commitments		
Already contracted for but not provided for	79,551,748	72,319,771

This committed expenditure relates to property, plant and equipment and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc

The property, plant and equipment consist of electrification, sewer, paved roads and water.

The operating activities consist of IT, event management services, insurance and valuation roll.

Maluti-A-Phofung Local Municipality

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44. Contingencies		
Detail of contingencies	Claims of damages	Claims of services rendered
	Claims for arrear payments	Labour court cases
		Total
Eskom	-	- 2,800,000,000
Water & Sanitation Services S.A (PTY) LTD	-	- 1,131,999
Transnet SOC LTD t/a Transnet Pipelines	17,675,427	-
Dikotsi J Thateng t/a Sheriff Witsieshoek	453,135	-
Bibi Cash & Curry (PTY) LTD// Maluti-a-Phofung Municipality	-	320,000
Bibi Cash & Curry (PTY) LTD// Maluti-a-Phofung Municipality	27,286,219	-
Department of Water & Sanitation	-	- 168,691,638
Mahlasinyana Mosia and 3 others	-	- 120,000
R.J.J Mohapi	-	- 200,000
Solar Spectrum Trading 24 (PTY) LTD	-	4,833,333
Maximum Profit Recovery (PTY) LTD	5,000,000	-
Afgri Operations (PTY) LTD	-	1,764,648
SAMWU obo M.M Selepe & 13 others & Sheriff of the High Court Phuthaditjhaba	-	- 559,395
WDF Viljoen // Maluti- a-Phofung & Thabo Mofutsanyana	633,331	-
D W Wessels // Maluti- a-Phofung & Thabo Mofutsanyana District Municipality	1,391,560	-
P.J.H Lourens // Maluti- a-Phofung & Thabo Mofutsanyana District Municipality	304,754	-
J.P & A.C Du Plooy // Maluti- a-Phofung & Thabo Mofutsanyana District Municipality	900,415	-
P.J Swart // Maluti- a-Phofung & Thabo Mofutsanyana District Municipality	402,337	-
E.G Cilliers // Maluti- a-Phofung & Thabo Mofutsanyana District Municipality	326,683	-
Grinpal Energy Management (Pty) Ltd // Maluti-a-Phofung	-	3,623,000
KAMBILA CONSTRUCTION CC //MAP	-	2,347,466
TNA Media t/a The New Age Newspaper//MAP	-	119,131
Letlaka Media CC// MAP	-	871,624
SAMWU obo Thabo P. Khasebe & 124 others	-	- 31,586,949
Rudnat Projects CC	-	1,999,999
Total-Geo Spatial Information Solution	176,773	-
Sekosana & 52 others	-	- 120,000
	54,550,634	17,011,200 2,968,691,638 32,586,344 3,072,839,816
Summary of claims		
Claims of damages		54,550,634 277,594,169
Claims of services rendered		17,011,200 1,131,999
Claims on arrear payments		2,968,691,638 445,000
Labour maintenance		32,586,344 317,643
		3,072,839,816 279,488,811

The following cases cannot be reliably measured

Maluti-A-Phofung Local Municipality

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Figures in Rand	2018	2017
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44. Contingencies (continued)

Bibi Cash & Curry (PTY) LTD// Maluti-a-Phofung Municipality
Mahlasinyana Mosia and 3 others
Sekosana & 52 others
R.J.J Mohapi

Default and breaches

During the year the municipality by occasion did not timely make contributions to various pension funds, medical aids and workmen's compensation as a result of cash flow constraints. This resulted in employees not being covered during these periods for claims. The municipality may be subject to claims as a result of this. The amount and probability of such claims cannot be reasonably estimated at the reporting date.

45. Related parties

Relationships

Accounting Officer	Refer to accounting officer's report note 6
Controlled entities	Refer to note 6
Councilors	Refer to note 30
Members of key management	Refer to note 29

Related party balances

Amounts included in trade receivable (trade payable) regarding related

Maluti-a-Phofung Water (SOC) Ltd	(115,526,662)	(115,526,662)
Maluti-a-Phofung Water (SOC) Ltd - insurance	8,039,590	8,039,590
Maluti-a-Phofung Water (SOC) Ltd - municipal services	13,350,149	13,350,149
Maluti-a-Phofung Water (SOC) Ltd - Acting CEO salary	1,402,589	544,339

Related party transactions

Total service charges

Maluti-a-Phofung Water (SOC) Ltd - water and sewer	24,742,617	27,520,834
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Equitable share and DWA grant payment

Maluti-a-Phofung Water (SOC) Ltd	115,540,000	109,000,000
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The transactions that took place between the related parties are within the ordinary course of business and thus the intercompany transactions and balances have been disclosed for the users of the financial statements.

Compensation to accounting officer and other key management

Defined contribution plans	58,509	79,788
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46. Prior period errors

The correction of the error(s) results in adjustments as follows:

Maluti-A-Phofung Local Municipality

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Figures in Rand	2018	2017		
46. Prior period errors (continued)				
Statement of financial performance				
Revenue	Balance as previously reported	Prior period error	Reclassification	Total
Service charges	402,955,086	-	-	402,955,086
Other income	19,121,932	-	-	19,121,932
Rental of facilities and equipment	1,142,043	-	-	1,142,043
Interest received - trading	19,665,116	-	-	19,665,116
Interest received - investments	2,303,804	-	-	2,303,804
Traffic fines	60,417,332	-	-	60,417,332
Property rates - penalties imposed	11,849,379	-	-	11,849,379
Property rates	151,220,692	-	-	151,220,692
Government grants and subsidies	635,117,297	-	-	635,117,297
Public contributions and donations	223,894	-	-	223,894
	1,304,016,575	-	-	1,304,016,575
Expenses				
Employee related cost	(343,703,978)	-	-	(343,703,978)
Councilors remuneration	(23,891,951)	-	-	(23,891,951)
Depreciation and amortisation	(268,359,815)	-	-	(268,359,815)
Impairment loss	(114,948)	-	-	(114,948)
Finance cost	(24,594,423)	-	-	(24,594,423)
Debt impairment	(63,212,204)	-	-	(63,212,204)
Bulk purchases	(594,330,372)	-	-	(594,330,372)
Contracted services	(94,457,442)	-	-	(94,457,442)
Transfers and subsidies	(109,000,000)	-	-	(109,000,000)
General expenses	(474,698,062)	(78,679,298)	-	(553,377,360)
Water management fees	(27,520,834)	-	-	(27,520,834)
	(2,023,884,029)	(78,679,298)	-	(2,102,563,327)
Fair value adjustments	62,251	-	-	62,251
Statement of financial position				
Current assets	Balance as previously reported	Prior period error	Reclassification	Total
Inventory	5,775,002	-	-	5,775,002
Receivables from exchange transactions	352,416,562	-	-	352,416,562
VAT receivable	165,172,569	-	-	165,172,569
Receivables from non-exchange transactions	94,341,747	-	-	94,341,747
Cash and cash equivalents	9,117,037	28,058,207	-	37,175,244
Long term debtors	1,864,328	-	-	1,864,328
	628,687,245	28,058,207	-	656,745,452
Non-current assets				
Investment property	51,413,117	-	-	51,413,117
Property, plant and equipment	3,455,931,036	-	-	3,455,931,036
Intangible assets	2,025,281	-	-	2,025,281
Investment in associate	300	-	-	300
Other financial assets	838,796	-	-	838,796
Long term debtors	5,258,537	-	-	5,258,537
	3,515,467,067	-	-	3,515,467,067

Maluti-A-Phofung Local Municipality

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Figures in Rand			2018	2017
46. Prior period errors (continued)				
Current liabilities				
Other liabilities	(3,014,395)	-	-	(3,014,395)
Payables from exchange transactions	(2,678,892,146)	-	-	(2,678,892,146)
Consumer deposits	(12,111,280)	-	-	(12,111,280)
Employee benefit obligations	(2,638,000)	-	-	(2,638,000)
Unspent conditional grants	(7,309,703)	-	-	(7,309,703)
	(2,703,965,524)	-	-	(2,703,965,524)
Non-current liabilities				
Other liabilities	(6,258,831)	-	-	(6,258,831)
Employee benefit obligations	(27,733,000)	-	-	(27,733,000)
Provisions	(38,252,641)	-	-	(38,252,641)
	(72,244,472)	-	-	(72,244,472)
Net assets				
Revaluation reserve	276,825,208	-	-	276,825,208
Accumulated surplus - opening balance	1,091,119,108	28,058,207	-	1,119,177,315
(Surplus) / deficit for the year	826,542,708	425,733,821	-	1,252,276,529
	2,194,487,024	453,792,028	-	2,648,279,052

1. Disclosure change of irregular expenditure.

The irregular disclosure changed after the supply chain unit revisited the entire population for the 2016/2017 financial year.

47. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

This note presents information about the municipality's exposure to each of the above risks and the municipality's objectives, policies and processes for measuring and managing risks. Further quantitative disclosures are included throughout the annual financial statements.

Maluti-A-Phofung Local Municipality

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47. Risk management (continued)

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At June 30, 2018	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Other financial liabilities	3,030,233	4,542,653	-	-
Payables from exchange transactions	3,807,324,055	-	-	-
Consumer deposits	12,259,360	-	-	-
Unspent conditional grants and receipts	80,270,411	-	-	-
At June 30, 2017	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Other financial liabilities	3,014,395	6,258,831	-	-
Payables from exchange transactions	2,678,892,146	-	-	-
Consumer deposits	12,111,280	-	-	-
Unspent conditional grants and receipts	7,309,703	-	-	-

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2018	2017
Cash and cash equivalents	7,351,769	37,175,244
Trade receivables from exchange transactions	511,477,916	352,416,562
Long term receivables	7,122,865	7,122,865
Receivables from non-exchange transactions	85,606,608	94,341,747
Other financial assets	906,586	838,796

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

Maluti-A-Phofung Local Municipality

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48. Going concern

The municipality incurred a net loss of R1 252 276 529 during the year ended 30 June 2018 and, as of that date, the municipality's current liabilities exceeded its current assets by R3 032 063 584. The municipality has been deducting pension, medical aid and pay as you earn from employee's salaries, but has been unable to pay over R59 520 897 (2017 R36 204 313) of these amounts deducted to the relevant third parties as disclosed in note 53. In addition, the municipality owed Eskom R3 015 207 615 (2017: R2 485 796 612). These events or conditions, along with other matters as set forth in note 48, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

The municipality is experiencing some financial difficulties, the indicators are as follows:

- suppliers are not paid within the legislative 30 days;
- unspent conditional grants are not backed by available cash balances;
- employee benefit obligations are unfunded;
- high levels of distribution losses;
- slow collection and low recoverability of outstanding consumer accounts; and
- unfavourable financial ratios.

There are pending legal or regulatory proceedings against the municipality that may, if successful result in claims that the entity is unlikely to be able to satisfy.

The municipality has negative operating cash flow in the current period of - R28 123 136.

The municipality defaulted on repayments of long term loan with DBSA in the current financial year.

The municipality does not have insurance for its assets for any catastrophes that may occur.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

The municipality is exploring alternative options to improve its financial position. Although certain financial ratios may appear unfavourable, the municipality still has the power to levy rates and taxes and it will continue to receive funding from government as evident from the equitable share allocation in terms of the Division of Revenue Act, 2016.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

49. Events after the reporting date

Material non-adjusting events which occurred after the reporting date:

Rural maintenance (Pty) Ltd and Maluti-a-Phofung Local Municipality court case.

The case between Rural maintenance (Pty) Ltd and Maluti-a-Phofung Local Municipality was concluded in the High Court of South Africa, Free State Division, Bloemfontein. The contract between the two parties was declared unlawful.

Drought

The Qwa-qwa area experienced a drought for the period January 2016 exceeding to the August 2020 financial year resulting in the area experiencing prolonged water outages. The entity, with help from DWA and MAP (SOC) Ltd, employed water tankers to ensure that residents had continued access to water. Staff were required to work overtime in order to ensure delivery of both water and sewer services to the community. The municipality cannot estimate the additional costs associated with this event.

Vandalized offices of MAP Municipality:

Maluti-A-Phofung Local Municipality

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49. Events after the reporting date (continued)

The municipality experienced community protests from October 2017 to April 2020 as a result of political unrest in the area of Qwa qwa where the head offices of the municipality are located. These protests resulted in the MAP offices being vandalized and the municipality revenue collections offices not being able to operate during the aforementioned period which then translated into the municipality not being able to collect the revenue to which the municipality would be entitled for basic services. The municipality cannot estimate the revenue foregone as a result of this event.

Assets attached and removed by Eskom belonging to Maluti-a-Phofung Municipality

Eskom will release the assets attached and removed by the sheriff. The assets to be released will remain under attachment in terms of the court order obtained until the debt has been fully extinguished.

Covid-19 pandemic:

The municipality was affected by the Covid-19 pandemic for the financial year 2019/20. To date the Municipality has reported 25 positive cases at the workplace. The municipality had to close down for a few days in June preceding early July. This has resulted in the closure of Municipal offices as and when to enable Deep cleaning/ disinfection & Fumigation. The Municipality has cautiously and continuously observed the health and safety protocol by providing employees with the required PPE. The revenue of the municipality may decline as a result of the spread of the virus and the economic impact. Inventories - the municipality may experience supply chain disruptions. Other factors can employee cost as people are working from home and many direct and indirect factors.

ESKOM recently attached the Municipality's bank account despite payment of R72 million by the municipality. The municipality approached court and only 90 million was returned and over R134 million is still retained by ESKOM. 13 Large power users are paying to ESKOM directly through court processes. The municipality has also entered into a contract with ESKOM for the installation of meters to 100 large power users and direct payment to ESKOM.

50. Unauthorised expenditure

Opening balance as previously reported	2,475,735,127	1,655,495,018
Opening balance as restated	2,475,735,127	1,655,495,018
Overspending on budget	709,593,319	820,240,109
Closing balance	3,185,328,446	2,475,735,127

The incidents relating 2017/2018 for unauthorised still needs to be investigated. No disciplinary actions has been taken up to date.

51. Fruitless and wasteful expenditure

Opening balance as previously reported	514,668,533	249,271,412
Opening balance as restated	514,668,533	249,271,412
Incurred in the current year	321,787,453	265,397,121
Closing balance	836,455,986	514,668,533

The incidents relating 2017/2018 for fruitless and wasteful expenditure still needs to be investigated. No disciplinary actions has been taken up to date.

Maluti-A-Phofung Local Municipality

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Figures in Rand	2018	2017
52. Irregular expenditure		
Opening balance as previously reported	430,129,573	215,194,212
Correction of prior period error	6,786,201	-
Opening balance as restated	436,915,774	215,194,212
Add: Irregular Expenditure - current year	28,321,183	214,935,361
Closing balance	465,236,957	430,129,573

All irregular expenditure pertains to the supply chain management policy of the municipality not being followed.

Details of irregular expenditure is available on request.

53. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	4,266,476	3,410,854
Current year subscription / fee	4,236,477	4,236,476
Amount paid - current year	(1,880,843)	(3,380,854)
	6,622,110	4,266,476

Audit fees

Opening balance	3,807,474	300,493
Current year subscription / fee	4,885,773	9,060,878
Amount paid - current year	(3,944,968)	(5,553,897)
	4,748,279	3,807,474

PAYE and UIF

Opening balance	18,706,750	7,753,202
Current year subscription / fee	47,737,989	47,737,989
Penalties and interest	4,967,376	4,967,376
Amount paid - current year	(33,998,616)	(33,998,616)
Amount paid - previous years	(7,753,201)	(7,753,201)
	29,660,298	18,706,750

Pension and Medical Aid Deductions

Opening balance	17,497,563	5,134,527
Current year subscription / fee	67,185,344	67,185,344
Amount paid - current year	(49,687,781)	(49,687,781)
Amount paid - previous years	(5,134,527)	(5,134,527)
	29,860,599	17,497,563

VAT

VAT receivable	258,791,842	165,172,569
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VAT output payables and VAT input receivables are shown in note 12.

All VAT returns have been submitted by the due date throughout the year.

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53. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at June 30, 2018:

June 30, 2018	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr MC Ramooana	-	9,996	9,996
Cllr MM Mokoena	-	60,780	60,780
Cllr SJ Mahlangu	-	14,229	14,229
Cllr M Tshabalala	-	41,383	41,383
Cllr PP Motaung	-	54,944	54,944
Cllr PM Motaung	-	12,204	12,204
Cllr MJ Ralethohlane	-	1,190	1,190
Cllr MD Molefe	-	1,838	1,838
Cllr TR Mohlekwa	2,446	9,690	12,136
Cllr PM Motaung	1,310	11,831	13,141
Cllr MC Ramooana	1,256	5,318	6,574
Cllr NF Chicha	2,587	8,257	10,844
Cllr PP Motaung	2,104	15,569	17,673
Cllr Pastor Mary	2,088	55,166	57,254
Cllr MM Mokoena	3,664	48,095	51,759
Cllr MJ Ralethohlane	2,399	2,492	4,891
Cllr MJ Lebesa	1,291	7,585	8,876
Cllr SJ Mahlangu	1,273	22,509	23,782
Cllr MT Mavuso	1,403	596	1,999
Cllr TS Mpakathe	6,834	62,851	69,685
Cllr LA Mboso	15,344	43,215	58,559
Cllr SG Letooane	681	1,000	1,681
Cllr KK Charlie	1,845	53,930	55,775
Cllr M Tshabalala	2,075	21,099	23,174
	48,600	565,767	614,367

June 30, 2017	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr KK Charlie	1,809	47,724	49,533
Cllr MJ Lebesa	1,118	2,588	3,706
Cllr SG Letooane	425	1,887	2,312
Cllr SJ Mahlangu	-	14,229	14,229
Cllr SJ Mahlangu	1,142	17,548	18,690
Cllr MT Mavuso	113	272	385
Cllr LA Mboso	4,745	24,549	29,294
Cllr MA Mofokeng	605	6,536	7,141
Cllr TR Mohlekwa	1,036	4,770	5,806
Cllr MM Mokoena	-	60,780	60,780
Cllr MM Mokoena	655	40,499	41,154
Cllr MD Molefe	-	4,588	4,588
Cllr MC Mositi	965	1,087	2,052
Cllr PM Motaung	-	14,954	14,954
Cllr PM Motaung	619	6,124	6,743
Cllr PP Motaung	-	54,944	54,944
Cllr PP Motaung	1,771	17,664	19,435
Cllr TS Mpakathe	1,495	60,653	62,148
Cllr Mary Pastor	2,106	46,786	48,892
Cllr MJ Ralethohlane	-	7,790	7,790

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53. Additional disclosure in terms of Municipal Finance Management Act (continued)		
Cllr PI Thebe	118	191
Cllr M Tshabalala	-	41,383
Cllr M Tshabalala	1,092	17,544
	19,814	495,090
		514,904

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

June 30, 2018	Highest outstanding amount	Aging (in days)
Cllr MC Ramooana	9,996	90
Cllr MM Mokoena	60,780	90
Cllr SJ Mahlangu	14,229	90
Cllr M Tshabalala	41,383	90
Cllr PP Motaung	54,944	90
Cllr PM Motaung	12,204	90
Cllr MJ Ralethohlane	1,190	90
Cllr MD Molefe	1,838	90
Cllr TR Mohlekwa	9,690	90
Cllr PM Motaung	11,831	90
Cllr MC Ramooana	5,318	90
Cllr NF Chicha	8,257	90
Cllr PP Motaung	15,569	90
Cllr MC Ramooana	5,318	90
Cllr NF Chicha	8,257	90
Cllr PP Motaung	15,569	90
Cllr Pastor Mary	55,166	90
Cllr MM Mokoena	48,095	90
Cllr MJ Ralethohlane	2,492	90
Cllr MJ Lebesa	7,585	90
Cllr SJ Mahlangu	22,509	90
Cllr MT Mavuso	596	90
Cllr TS Mpakathe	62,851	90
Cllr LA Mboso	43,215	90
Cllr SG Letooane	1,001	90
Cllr KK Charlie	53,930	90
Cllr M Tshabalala	21,099	90
	594,912	2,430

June 30, 2017	Highest outstanding amount	Aging (in days)
Cllr KK Charlie	49,533	90
Cllr MJ Lebesa	3,706	90
Cllr SG Letooane	2,312	90
Cllr SJ Mahlangu	18,690	90
Cllr SJ Mahlangu	14,229	90
Cllr MT Mavuso	385	90
Cllr LA Mboso	29,294	90
Cllr MA Mofokeng	7,141	90
Cllr TR Mohlekwa	5,806	90
Cllr MM Mokoena	60,780	90
Cllr MM Mokoena	41,154	90
Cllr MD Molefe	4,588	90
Cllr MC Mositi	2,052	90
Cllr PM Motaung	14,954	90
Cllr PM Motaung	6,743	90
Cllr PP Motaung	54,944	90

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53. Additional disclosure in terms of Municipal Finance Management Act (continued)		
Cllr PP Motaung	19,435	90
Cllr TS Mpakathe	62,148	90
Cllr Mary Pastor	48,891	90
Cllr MJ Ralethohlane	7,790	90
Cllr PI Thebe	309	90
Cllr M Tshabalala	41,383	90
Cllr M Tshabalala	18,636	90
	514,903	2,070

54. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

Buses and gym equipment were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

Deviations

Emergency	5,700,965	1,857,578
Impractical/ impossible to follow procurement process	2,366,190	-
Sole provider	459,365	383,420
	8,526,520	2,240,998

Maluti-A-Phofung Local Municipality

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55. Non-compliance with the MFMA

During the current financial year the following non-compliance matters were identified:

Section 69 of the MFMA

Expenditure occurred and disclosed within the financial statements for the year ending 30 June 2018 which were more than the allocated amount per the approved adjustment budget 2017/2018.

Section 126(1)(a) of the MFMA

The annual financial statements were not submitted for auditing within two months after the end of the financial year, as required by section 126(1)(a) of the MFMA.

The consolidated financial statements were not submitted for auditing, within three months after the end of the financial year, as required by section 126(1)(b) of the MFMA.

Section 65 (2)(e) of the MFMA

Invoices were not paid within 30 days of receiving them.

Section 64 (2)(a) of the MFMA

The municipality does not have the necessary capacity and resources to implement sufficient controls over the collection of outstanding debt.

Section 63 of the MFMA

The municipality had not maintained a management, accounting and information system that accounted for liabilities.

The creditors listing indicated that all deductions on behalf of third parties is recognised against the SARS liability and not the individual beneficiaries, thus evident that a system of internal control of liabilities were not applied.

The creditors ledger on E-venus (IT system) is not kept in order to compile the creditors listing as on year end.

Section 62(1)(d) of the MFMA

The municipality did not take the necessary steps to ensure that reasonable measures are in place to prevent fruitless and wasteful expenditure that was incurred in relation to overdue Eskom accounts in the current and prior year.

Division of Revenue Act section 12(5)

The municipality did not evaluate the financial and non-financial performance of the municipality in respect of programmes partially or fully funded by a Schedule 5 allocation and submit such evaluation to the transferring officer and the relevant provincial treasury within one month.

Division of Revenue Act section 12 (2)(c)

The municipality did not submit a quarterly non-financial performance report within 30 days after the end of each quarter to the transferring officer and the relevant provincial treasury.

Section 37(1)(c) of the MFMA

The municipality did not promptly meet all financial commitments towards other municipalities or national and provincial organs of state.

Supply chain management Regulation 18(a)

The municipality did not adhere to the following requirements, stating that "all requirements in excess of R30 000 (VAT included) that are to be procured by means of formal written price quotations must, in addition to the requirements of regulation 17, be advertised for at least seven days on the website and an official notice board of the municipality".

Section 32(1) Procurement of goods and services under contract secured by other organs of state

The municipality did not adhere to the requirements under the procurement of goods and services.

Supply chain management Regulation 28(2)(a)

The municipality did not adhere to the following requirements, of the supply chain management stated on the regulation.

Section 116(2) of MFMA

The municipality did not adhere to the following requirements stating that: The accounting officer of a municipality must monitor on a monthly basis the performance of the contractor under the contract.

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55. Non-compliance with the MFMA (continued)

Section 52(d) of MFMA

The municipality did not adhere to the following requirements stating that: within 30 days of the end of each quarter, submit a report to the council on the implementation of the budget and the financial state of affairs of the municipality.

Section 66 of MFMA

The municipality did not adhere to the following requirements stating that: The accounting officer of a municipality must, in a format and for periods as may be prescribed, report to the council on all expenditure incurred by the municipality on staff salaries, wages, allowances and benefits, and in a manner that discloses such expenditure per type of expenditure.

Section 71 of MFMA

The municipality did not adhere to the following requirements stating that: The accounting officer of a municipality must by no later than 10 working days after the end of each month submit to the mayor of the municipality and the relevant provincial treasury a statement in the prescribed format on the state of the municipality's budget.

Section 72 of MFMA

The municipality did not adhere to the following requirements stating that: The accounting officer of a municipality must by 25 January of each year—(a) assess the performance of the municipality during the first half of the financial year, taking into account—(i) the monthly statements referred to in section 71 for the first half of the financial year; (ii) the municipality's service delivery performance during the first half of the financial year, and the service delivery targets and performance indicators set in the service delivery and budget implementation plan; (iii) the past year's annual report, and progress on resolving problems identified in the annual report; and (iv) the performance of every municipal entity under the sole or shared control of the municipality, taking into account reports in terms of section 88 from any such entities; and (b) submit a report on such assessment to—(i) the mayor of the municipality; (ii) the National Treasury; and (iii) the relevant provincial treasury.

Section 28(1) of MFMA

The municipality did not adhere to the following requirements stating that: A municipality may revise an approved annual budget through an adjustments budget.

56. Budget differences

Material differences between budget and actual amounts

Maluti-A-Phofung Local Municipality

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Figures in Rand	2018	2017
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56. Budget differences (continued)

1. Service charges

The Municipality is facing a challenge of distribution losses, tampering and illegal connections. This difference was due to drought situation the Municipality found itself in which led to high pipe bursts when water was tested after drought, hence the Municipality couldn't bill as planned.

2. Rental: facilities and equipment

Revenue of facilities and equipment depends on needs by the community to rent out municipal facilities. Not a look of bookings occurred for rental of municipal facilities..

3. Interest received

No interest was charged on outstanding debtors, hence no actual amount on interest received.

4. Other income

Other income decreased as this type of oncome depends on the needs of the community and the municipality did not receive sponsorship like it in the prior year.

5. Interest received - investments

The municipality invested some of the grants recieved in order to generate a positive interest hence the increase in interest received - investment.

6. Traffic fines

The actual includes all the fines issued regardless of whether paid or not while the budget was only based on estimated cash to be collected.

7. Property rates

The valuation roll objections Appeal Board set in October 2016 and market values were adjusted in accordance with the board's decision.

8. Employee related costs

The difference was due to overtimes paid and acting allowances on positions where officials are on suspension.

9. Depreciation and amortisation

The was no asset register at the municipality, the depreciation is calculated on an escalation of 2%, which is not the accurate depreciation and amortisation.

10. Finance cost

Interest paid to DBSA decreased as the liability of DBSA decreased.

11. Bulk purchases

The Municipality did not account for all the invoices charged by Eskom for 2017/2018, the focus was on the actual payments made to Eskom.

12. Contracted services

Payments depends on cash flow and invoices received. Some of the contractors that were initially budgeted for were not utilised by the end of the year.

13. General expenditure

The municipality didn't initially budget for the interest charged on the bulk Eskom account.

14. Water management fees

The municipality did not account for all the invoices charged for the water management fees for 2017/2018, the focus was on the actual payments made to MAP Water

15. Inventories

The budget provision for inventory was based on the 2016/2017 outcomes. No increase was effected, hence the under budget.

16. Receivables from exchange transactions

The Municipality is facing a challenge of distribution losses, tampering and illegal connections. This difference was due to drought situation the Municipality found itself in which led to high pipe bursts when water was tested after drought, hence the

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56. Budget differences (continued)

Municipality couldn't bill as planned.

17. Receivables from non-exchange transactions

The budget provision was based on the 2016/2017 outcomes.

18. VAT receivable

During the budget the Municipality did not anticipate to be receiving a high VAT by the end of the year, this is due to the high expenditure and the low service charges, occupancies with no billing.

19. Investment property

The budget provision was based on the 2016/2017 outcomes and the projected acquisitions, however no asset register was prepared.

20. Property, plant and equipment

The budget provision was based on the 2016/2017 outcomes and the projected acquisitions, however no asset register was prepared.

21. Other financial liabilities

The liabilities were projected to be reduced by the end of the year, however the payments to the DBSA did not happen accordingly due to cashflow.

22. Trade and other payables from exchange transactions

The liabilities were projected to be reduced by the end of the year, however the payments to the suppliers did not happen accordingly due to cashflow.

23. Unspent conditional grants and receipts

Amounts remained unspent for certain grant was which was not anticipated by the municipality.

24. Provisions

No provisions were calculated for the financial year 2017/2018.

25. Revaluation reserves

The asset base change mainly due to a change in the accounting policy, thus the revaluation reserve was thus reserved.

26. Accumulated surplus

The adjustment of material misstatements identified in the prior period error, the balances were corrected. This was not budgeted for.